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# Annual accrued expenditure budgeting and appropriating : a dead issue?

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ANNUAL ACCRUED EXPENDITURE BUDGETING  
AND APPROPRIATING — A DEAD ISSUE?

ROBERT BROWN GRANT

















ANNUAL ACCRUED EXPENDITURE BUDGETING AND APPROPRIATING--

A DEAD ISSUE?

By

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Bachelor of Science  
June 1, 1951  
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A thesis submitted to the Faculty of the School of Government,  
Business, and International Affairs of The George Washington  
University in partial satisfaction of the requirements  
for the degree of Master of Business Administration

June 7, 1961

Thesis directed by

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1. The purpose of this report is to provide a summary of the results of the research conducted by the author during the past year. The research was conducted in the field of [illegible] and the results are presented in the following sections.

2. The first section of the report is a review of the literature. This section provides a summary of the work of other researchers in the field of [illegible]. The second section of the report is a description of the experimental procedure. This section provides a detailed description of the methods used in the experiment. The third section of the report is a presentation of the results of the experiment. This section provides a summary of the data obtained from the experiment. The fourth section of the report is a discussion of the results. This section provides a summary of the conclusions drawn from the results of the experiment.

3. The results of the experiment are presented in the following sections. The first section of the results is a summary of the data obtained from the experiment. The second section of the results is a detailed description of the data obtained from the experiment.

4. The conclusions drawn from the results of the experiment are presented in the following sections. The first section of the conclusions is a summary of the conclusions drawn from the results of the experiment. The second section of the conclusions is a detailed description of the conclusions drawn from the results of the experiment.





## PREFACE

As the only U. S. Coast Guard officer in the 1961 Class of the Navy Graduate Comptrollership Program, I became interested in the Coast Guard's experience with the accrued expenditure method of budgeting and appropriating, the only armed service to be so involved.

Despite the evident possibility that the accrued expenditure principle may lapse as effective legislation within a year, and some day be remembered only as one of the many concepts designed to improve the budgeting and appropriating procedures which are at any one instance present in the Federal government, the tremendous support which the concept built up in such a relatively short period, and the controversy involved in its eventual enactment into legislation, led me to attempt to trace its development from beginning to now.

Whether or not the accrued expenditure method is a dead issue, writing this paper enabled me to benefit from a comprehensive study of the present Federal budgeting procedures.

Acknowledgment for technical assistance is gratefully made to CDR Robert T. LoForte, USCG, Marvin P. Hopkins, and Leo W. Weil, all of the Budget and Cost Analysis Division, U. S. Coast Guard Headquarters, Washington, D. C.





## TABLE OF CONTENTS

	Page
PREFACE . . . . .	11
Chapter	
I. INTRODUCTION . . . . .	1
The Spending Process	
The Federal Budget	
Spending Authority Terminology	
Earlier Recommendations for Expenditure	
Limitations	
Second Hoover Commission	
What Annual Accrued Expenditures Means	
II. ARGUMENTS FOR AND AGAINST THE ANNUAL	
ACCRUED EXPENDITURE METHOD . . . . .	12
Budget Review	
Improved Congressional Control--	
"Power of the Purse"	
Carryover Balances	
Contract Authority	
Savings and Economy	
Administrative Requirements	
Budget Estimating	
Effects on Program Accomplishment	
Correspondence Between Appropriation	
Obligations and Expenditures	
Over-emphasis on Accounting?	
Retention of Obligational Base	
Economic Implications	
Other Arguments	
Summary	
III. LEGISLATIVE HISTORY OF LIMITATIONS ON	
ANNUAL ACCRUED EXPENDITURES . . . . .	55
Mass of Support in Favor of Method	
"Small Band" of Opposition	
Congressional Consideration	
Provisions of the Law	
Did the Law Accomplish the Objectives	
of the Hoover Commission?	
The Control Problem in Implementation	
Summary	



Chapter	Page
IV. RESULTS OF ATTEMPTS TO EFFECT LIMITATIONS WITHIN APPROPRIATIONS BILLS . . . . .	75
Proposed Limitations in President's Budget Submissions Arriving at the Limitation Establishment of Controls Justification of the Proposed Experiment Elimination by the Appropriations Committee The 1962 Budget Summary	
V. CONCLUSIONS AND SUMMARY . . . . .	89
The Need for Better Review The Cost-Based Budget The Future for the Accrued Expenditure Method Summary	
APPENDICES	
A. PUBLIC LAW 85-759 . . . . .	99
B. MATHEMATICAL DETERMINATION OF WHAT CONSTITUTES ANNUAL ACCRUED EXPENDITURES .	101
C. FY 1960 SUBMISSION OF COAST GUARD OE BUDGET	103
D. FY 1960 SUBMISSION OF COAST GUARD AC&I BUDGET . . . . .	104
BIBLIOGRAPHY . . . . .	105





## CHAPTER I

### INTRODUCTION

The exercise of the spending power as a function of Congress requires a great amount of careful study and analysis. At the very "heart of the spending power is the appropriation process, although we cannot ignore the over-all picture of making federal expenditures."<sup>1</sup>

This paper deals with the consideration, study, debate, and ultimate passage of legislation which contemplated placing a limitation on spending, more specifically, annual accrued expenditures, of agencies within the executive branch of the Government. "The enactment of Public Law 85-759, approved August 25, 1958, climaxed one of the most controversial pieces of legislation on budget and accounting in many years."<sup>2</sup> The version of the accrued expenditure principle which was eventually enacted was a compromise of the original recommendation proposed by the Commission on Organization of the Executive Branch of the Government, perhaps better known as the Second

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<sup>1</sup>Robert Ash Wallace, Congressional Control of Federal Spending (Detroit: Wayne State University Press, 1960), p. 4.

<sup>2</sup>U. S., Congress, Senate, Committee on Government Operations, Financial Management in the Federal Government, 86th Cong., 2d Sess., December 30, 1960 (Washington: U. S. Government Printing Office, 1961), p. 98.



## Hoover Commission.

Although to date there has been no complete implementation of the accrued expenditure concept, this paper traces the attempts toward full usage as far as they have been permitted by the Congress to materialize. Inasmuch as the law permitting limitations to be placed on annual accrued expenditures expires on April 1, 1962, an evaluation is made of the future implications of that principle.

### The Spending Process

One of the leading authorities on Congress, Dr. George Galloway, estimates that "perhaps nine-tenths of the work of Congress is concerned, directly or indirectly, with the spending of public money."<sup>3</sup>

The federal spending process "begins with the background of authorizing legislation on the statute books. It then proceeds through four phases: budget preparation, budget authorization, budget execution, and budget review."<sup>4</sup> It is emphasized that the word "budget" appears in the description for each of the four phases.

Wallace continues: "But currently the most vexing problems appear to arise during the period of budget authorization--the time of congressional consideration and enactment of appropriation bills."<sup>5</sup> It is the period of budget authorization with which this discussion of the accrued expenditure

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<sup>3</sup>Wallace, Congressional Control . . ., p. 3.

<sup>4</sup>Ibid., p. 4.

<sup>5</sup>Ibid.







principle is mostly concerned, although the complete accrued expenditures system and method affect the other three phases of the spending process, as well.

### The Federal Budget

In the preparation of the budget "lies not only the control of departmental expenditures but the power to insist on efficient methods of management in the spending agencies."<sup>6</sup>

However, neither the Congress nor the President has achieved the control that they have desired over the expenditure of appropriated funds.

The Congress itself has had difficulty in controlling the departments and has been unwilling to give the President the power to do so. Appropriations generally are made directly to the departments rather than to the President; and in practice it is extremely difficult for him to require departmental conformity with his decision on the use of appropriations. The main inducement to such conformity lies in the fact that non-conformity may be penalized in the future.<sup>7</sup>

The Federal budget is concerned with three main categories:

. . . expenditures, appropriations, and revenues, rather than merely expenditures and revenues. This division is a perpetual source of practical difficulty as well as popular confusion. From the viewpoint of the budget's economic impact during the ensuing year, the President and the Congress are properly concerned with the relation of expenditures to revenues. On the other hand, the President recommends and the Congress enacts appropriations

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<sup>6</sup>U. S., Commission on Organization of the Executive Branch of the Government, Budget and Accounting: A Report to the Congress, June 1955 (Washington: U. S. Government Printing Office, 1955), p. ix.

<sup>7</sup>Arthur Smithies, The Budgetary Process in the United States (New York: McGraw-Hill Book Co., 1955), pp. 148-49.



which give the agencies the authority to spend, although they may not be closely related to expenditures in the year for which they are made.<sup>8</sup>

The budget of the United States, as submitted to Congress, in reality is two documents in one. First, it states the amount of revenues estimated to be received and the amount anticipated to be expended during the fiscal year. Second, it authorizes the various agencies of the government to operate for the fiscal year and sets the amounts for which they may obligate the Treasury in carrying forward their programs.<sup>9</sup>

Congress is required to take action each year upon only the second, or authorization, portion. This paper is concerned with the role Congress would play in setting not only the amounts which agencies may obligate in conducting their operations and carrying forward programs, but with the setting also of limitations upon the amount of expenditures (or spending on a "checks issued" basis) which the agencies might effect in liquidating prior obligations.

Although the budget is submitted to the Congress annually by the President, and is acted upon annually by the Congress, "there its annual character ceases."<sup>10</sup>

Furportedly it is a budget for a particular fiscal year and is thought of as representing the cost of operation of the government during that year, but it is not that simple. It includes funds for the completion of projects and programs begun in previous fiscal years; for the payment of items due because of the operation of laws authorizing agencies to carry on activities that are not related to any fiscal year, except as it may be possible to compute the cost thereof for the year; and for the beginning of projects that may take

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<sup>8</sup>Ibid., pp. 102-103.

<sup>9</sup>George Y. Harvey, "Contract Authorization in the Federal Budget Procedure," Public Administration Review, Spring, 1957, p. 117.

<sup>10</sup>Ibid.





years to finish.<sup>11</sup>

The essence of the foregoing appears ad infinitum throughout a study of the accrued expenditure concept integrated into an annual basis. The very existence of programs which cannot be completed for several years, let alone a single year, seriously complicates a system of budget authorization predicated upon an annual appropriation.

#### Spending Authority Terminology

Spending authority can be grouped into the "three categories of spending, lending, and contract authority. . . . Each agency may be said to have a 'tank' of spending, lending, or contracting authority, but the level at which [each] is kept varies widely."<sup>12</sup>

In all, Congress uses ten different kinds of spending authority:

1. Ordinary current appropriations, including one-year, multiple-year, and no-year appropriations.
2. Annual indefinite appropriations.
3. Permanent appropriations: definite and indefinite.
4. Contract authorizations, which confer authority to enter into contracts and incur other obligations in advance of an appropriation: current and permanent.
5. Appropriations to liquidate contract authorizations.
6. Authorizations to expend from public debt receipts.
7. Authorizations to make loans out of the Treasury.
8. Reappropriations.
9. Reauthorizations of contract authority.
10. Reauthorizations to expend from public debt receipts.<sup>13</sup>

Smithies states "public comprehension of the budget is greatly hampered by its bewildering terminology."<sup>14</sup>

<sup>11</sup>Ibid.

<sup>12</sup>Wallace, Congressional Control . . ., p. 22.

<sup>13</sup>Ibid., p. 21.

<sup>14</sup>Smithies, The Budgetary Process . . ., p. 190.





On the expenditure side, the terms appropriation, obligation, and expenditure cannot be avoided and are confusing enough. There is no need to complicate things further by using reappropriations, contract authorizations, appropriations to liquidate contract authorizations, and authorizations to expend from public-debt receipts--all embraced by the hideous term "new obligational authority."<sup>15</sup>

It is beyond the scope of this paper to explain or defend the labyrinth of terminology used in connection with the budget and the spending power. However, terms are defined and explained insofar as is practicable when they are involved with the accrued expenditure principle.

#### Earlier Recommendations for Expenditure

##### Limitations

In 1952, the House of Representatives made an unsuccessful attempt through the Coudert Resolution to impose a ceiling on expenditures.<sup>16</sup>

The failure of the Congress to control expenditures in a particular year through appropriations for that year has led to repeated assertions that there is something inherently wrong with the system and that Congressional control would be strengthened if the budget were placed on a strictly annual basis so that appropriations made for a given year had to be both obligated and spent in that year.<sup>17</sup>

During the same year, a congressional attempt was made by means of the Smith amendment to exercise greater control over the Defense Department appropriation by the imposition of a ceiling on the actual amounts to be expended by that department in fiscal year 1953.

<sup>15</sup>Ibid.

<sup>16</sup>Ibid., p. 136.

<sup>17</sup>Ibid.



Giving loud and vocal claims to its prerogatives and the fear that purse control was slipping away, the House passed the ceiling amendment in an attempt to regain control over a huge backlog of unspent funds--about \$57,000,000 [Sic--actually should be \$57,000,000,000] . The amendment was passed amidst warnings by Rep. John Vorys of

"a threat of a military dictatorship over the economy of our country by permitting the military to have the possibility of spending \$103,000,000,000 in one year, if they so desire. This amendment will return to the Congress the responsibility they should carry out of deciding upon expenditures."<sup>18</sup>

However, the Senate followed the recommendations of its Appropriations Committee and omitted the expenditure ceiling. The ceiling was likewise omitted in conference, "probably under the pressure of military leaders and the Administration."<sup>19</sup>

Had Congress imposed the ceiling amendment, there is no doubt but that it could have controlled the amounts to be expended by the Department of Defense. But it seems almost certain that it had no real idea of what the consequences of taking such action would have been because of the limitations of the information made available to it.<sup>20</sup>

In January 1954, a proposal for the use of an expenditure budget was made to the Bureau of the Budget by a group of professional accountants who had studied the problem.<sup>21</sup>

Also, in 1954, the Cooper committee of the Senate in its report on Financial Management in the Department of Defense, October 1954, stated:

<sup>18</sup>Wallace, Congressional Control . . ., p. 79.

<sup>19</sup>Ibid., p. 81.

<sup>20</sup>Ibid.

<sup>21</sup>Commission on Organization . . ., Budget and Accounting . . ., p. 24.





However, in order to gain the maximum benefits from budgeting and accounting on a cost basis, the Committee suggests that consideration be given to a basis of appropriating that would be more closely related to costs in the sense of goods and services received than the basis now used. Although some provision for congressional authorization to contract for long lead time c. o. d. orders would be needed, the cost approach would focus attention on the resources to be received and those to be used in the budget year.<sup>22</sup>

### Second Hoover Commission

Included in Part IV of its report on budget and accounting to Congress, entitled "Restoration of Congressional Control of the Purse," the Second Hoover Commission submitted as Recommendation No. 7: "That the executive budget and congressional appropriations be in terms of estimated annual accrued expenditures, namely, charges for the cost of goods and services estimated to be received."<sup>23</sup> In all, that report contained 25 separate recommendations relating to budget and accounting. The Commission's Task Force on Budget and Accounting had, in its report to the parent body, included the annual accrued expenditure concept as its Recommendation No. 11, of an overall total of 29 recommendations.<sup>24</sup>

In its analysis of the Budget and Accounting Report, the Executive Office of the President listed the Second Hoover Commission's principal recommendations as calling for:

<sup>22</sup>Ibid.

<sup>23</sup>Ibid., p. 25.

<sup>24</sup>U. S., Commission on Organization of the Executive Branch of the Government, Task Force Report on Budget and Accounting in the United States Government, June 1955 (Washington: U. S. Government Printing Office, 1955), p. 40.





(a) continued use of performance budgeting, (b) formulation and administration of agency budgets on a cost basis, (c) appropriations based on accrued expenditures, and (d) authorization for limited periods of continuing Government programs not susceptible to the usual budget controls.<sup>25</sup>

Percy Rappaport, Assistant Director, Bureau of the Budget, stated before the House Subcommittee on Executive and Legislative Reorganization, during the conduct of early hearings on legislation to implement the objectives of the Second Hoover Commission:

. . . we are especially interested in three things: 1, accrual accounting; 2, cost-based budgeting; and 3, appropriations on accrued-expenditure basis.

These are the three things that we are primarily interested in and we think they are the important substance of the Hoover Commission report.<sup>26</sup>

Former Senator John F. Kennedy, an active proponent of the accrued expenditure principle, and sponsor of legislation originating in the Senate to enact it into the Government's appropriation procedure, was quoted as saying that he regarded that provision as "the very heart of the (Hoover) Commission's highly commended revision of our complicated financial structure."<sup>27</sup>

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<sup>25</sup>U. S., Executive Office of the President, Bureau of the Budget, Improvement of Financial Management in the Federal Government, October 1956 (Washington: U. S. Government Printing Office, 1956), p. 21.

<sup>26</sup>U. S., Congress, House, Subcommittee of the Committee on Government Operations, Hearings, Bills to Improve Governmental Budgeting and Accounting Methods, 84th Cong., 2d Sess., 1956, p. 75.

<sup>27</sup>U. S., Congress, Senate, Subcommittee on Reorganization of the Committee on Government Operations, Hearing, Bills to Provide for Improved Methods of Stating Budget Estimates, 85th Cong., 1st Sess., 1957, p. 12.



The Executive Office analysis further elaborated:

Appropriations are now made in terms of obligations, with amounts appropriated serving as a limit on goods and services to be ordered; whereas the Commission favored appropriation of amounts covering goods and services to be received each year, with supplementary congressional authorization and limitation for long lead-time programs as required.<sup>28</sup>

That implementation of the Hoover Commission recommendation was of necessity to be long-range in character can be readily seen from the Commission's statement that "adoption of this proposal will require administrative change in the Government's budgeting and accounting procedures, particularly in the Department of Defense, and will require education of those concerned with the budgetary procedures and the working out of the precise mechanics."<sup>29</sup>

In arriving at its recommendations, the Task Force on Budget and Accounting drew much of its data from an investigation by the Comptroller General of the United States made at the request of the House Committee on Appropriations in 1954.<sup>30</sup>

#### What Annual Accrued Expenditures Means

In its simplest terms, annual accrued expenditures means stating appropriations on the basis of goods and services expected to be received during the year regardless of when obligated for, or when used, or when paid for.

The obligation basis is "related to the accrued

<sup>28</sup>Executive Office of the President, Improvement of Financial . . ., p. 23.

<sup>29</sup>Commission on Organization . . . , Budget and Accounting . . ., p. 25.

<sup>30</sup>Harvey, Public Administration Review, Spring, 1957, p. 118.





expenditure basis through a simple formula, as follows:

Obligations incurred equal accrued expenditures plus the increase in contracts and orders or legal commitments outstanding during the period or less a decrease."<sup>31</sup>

The accrual of expenditures "differs from the incurral of obligations, when it differs at all, in coming at a later point in the process of the Government's procurement."<sup>32</sup>

Expenditures accrue "when goods and services are received, or generally, when title passes to the Government. Accrual includes the occasions when performance on a contract is accepted for the purpose of progress payments that are made before the completion of the entire job."<sup>33</sup>

(Reference matter of this paper contains a more elaborate definition of annual accrued expenditures, and shows how they can be derived mathematically.)<sup>34</sup>

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<sup>31</sup>House Committee on Government Operations, Bills to Improve . . . Hearings, 1956, p. 152. (See Appendix II for complete and expanded formula.)

<sup>32</sup>Ibid., p. 114.

<sup>33</sup>Ibid.

<sup>34</sup>See Appendix B.





## CHAPTER II

### ARGUMENTS FOR AND AGAINST THE ANNUAL ACCRUED EXPENDITURE METHOD

It is the purpose of this chapter to present and evaluate insofar as is possible all of the most pertinent arguments for and against the annual accrued expenditure principle. Neither pro nor con is stressed at the sacrifice of the other. The reader is free to draw his own conclusions, keeping in mind that the question is never isolated from controversy.

#### Budget Review

Perhaps the bulk of the discussion surrounding the Hoover Commission recommendation for annual accrued expenditure appropriating and budgeting concerned review of the President's budget by Congress during the authorization stage. The subject of review is very much related to the subsequent section on congressional control of the budget and the "power of the purse."

Proponents of the method generally agreed that the whole Congress has continually encountered difficulty "in determining, with respect to any individual budget, the actual expenditures during the year, the appropriation for the year, the obligating authority for the year, and the balance of



appropriations carried forward from preceding years."<sup>1</sup> That group felt that the accrued expenditure procedure would synthesize and simplify that problem.

However, the two Appropriations Committees members, those probably most familiar with the intricacies of the Federal budget, seemed satisfied with the present picture that was derived from the budget presentation. The Chairman of the Senate Appropriations Committee stated:

Information on obligations and expenditures for a 3-year period are presently included in the budget submissions made to the Congress on each appropriation item. The Appropriations Committee, in their annual hearings, inquire searchingly into the expenditure of previous funds, the existence of unused balances and reasons therefor, and the need for additional funds, as a basis for arriving at the amount of new appropriations that may be required for each program or item. The Committee on Appropriations of the House of Representatives, consisting of 50 members who have no other committee assignments requiring their attention, performs an excellent service by careful inquiry as to the need for every item of expenditure recommended in the President's budget.<sup>2</sup>

The Chairman of the House Subcommittee on Defense Department Appropriations summarized: "The expenditure basis here in this budget shows exactly what is being spent each year. It shows what is carried over from previous years, what

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<sup>1</sup>U. S., Congress, Senate, Committee on Appropriations, Hearings, Bills to Provide for Improved Methods of Stating Budget Estimates and Estimates for Deficiency and Supplemental Appropriations, 85th Cong., 2d Sess., 1958, p. 91.

<sup>2</sup>U. S., Congress, Senate, Committee on Appropriations, Providing for Improved Methods of Stating Budget Estimates, 85th Cong., 2d Sess., 1958, S. Rept. 1866 to accompany H. R. 8002, pp. 3-9.





total obligations are."<sup>3</sup>

But, the Assistant Secretary of Defense (Comptroller) believed that somewhere between the two extremes was more accurate when he said:

It is unlikely that more information might be available under a system calling for an accrued expenditure limitation, although, as indicated in the testimony of the Bureau of the Budget, perhaps a more detailed examination of the available information might be required.<sup>4</sup>

Referring to a more orderly review of the budget, the General Accounting Office believed:

. . . that while many procedures have been built into the budget review process which are designed to review carryover authority and long leadtime programs and not withstanding the efforts that have been made, accrued expenditure appropriations will provide an orderly and logical basis for such a review and will place the operation in a regular channel through consideration of accrued expenditure appropriations as part of the regular budget process, both in the executive branch and in the Congress.<sup>5</sup>

In reminding that once an appropriation has been made for a particular purpose, and that money can be spent without any further positive review by Congress, the Acting Director, Bureau of the Budget stated that the accrued expenditure method

<sup>3</sup>U. S., Congress, House, Subcommittee of the Committee on Government Operations, Hearings, Bills to Improve Federal System of Budgeting and Making Appropriations, 85th Cong., 1st Sess., 1957, p. 205.

<sup>4</sup>Senate Committee on Appropriations, Bills to Provide . . . , Hearings, 1958, p. 123.

<sup>5</sup>U. S., Congress, House, Subcommittee of the Committee on Government Operations, Hearings, Bills to Improve Governmental Budgeting and Accounting Methods, 84th Cong., 2d Sess., 1956, p. 172.





would provide a "mandatory review by the entire Congress of the program changes which have been made of the unobligated balances which remain, and the use to which it is proposed they be put."<sup>6</sup>

The significant point to be emphasized here is that the proponents of the method, while admitting that the Appropriations Committees perform a review of the means to which previously appropriated money has been put, believed the accrued expenditure method would automatically provide a systematic annual presentation of the agency financial plans, showing past performance and forward planning.

The Chairman of the Hoover Commission Task Force on Budget and Accounting thought the recommended procedure would "give the Congress a storehouse of information which it does not now have and which I cannot understand how it can obtain readily except by some frontal attack on the problem, by requiring that agencies come back to Congress for the money."<sup>7</sup> The last portion of his statement referred to coming back to Congress for authority to expend previously appropriated monies.

At least two members of Congress felt the procedures of review were inadequate:

There is no obligation for the legislature to review, and the review is often not made in great detail. It is easy to say simply "We went over all that last year, let's not bother with it again." On the other

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<sup>6</sup>Senate Committee on Appropriations, Bills to Provide . . . , Hearings, 1958, p. 107.

<sup>7</sup>House Committee on Government Operations, Bills to Improve . . . , Hearings, 1957, p. 114.





hand, if the Congress each year has to prescribe a certain amount of money to continue a project, it is much more likely to ask whether the project is being carried out as efficiently as possible, or even whether the project is worth continuing. The Congress would be forced to take positive action pegged to a specific sum of money, instead of just acquiescing in the continued spending of money already appropriated.<sup>8</sup>

The Appropriations Committee position, in support of the present review procedure, was that:

. . . we find out how much you have spent, what did you spend it for, did you carry out the purpose which you said you would carry out, have you fulfilled your obligations to Congress in the assurances you have given, what progress have you made?

Then we have procurement and other investigations. We had one last year. We have one this year, when we go out and we kind of see what actually happened from our standpoint, because we want not only their word, but we want a look-see of our own, . . . and of course, . . . we get the GAO reports all the time.<sup>9</sup>

In answering whether the accrued expenditure method might obscure the total cost of a program, especially with the method providing contracting authority for long lead-time items, and thereby ineffectuate review, the Comptroller General stated:

I do not think it would obscure cost of a program. . . . I think the entire program would be before the appropriate legislative committees and the Appropriations Committees and, therefore, before the Congress as a whole and they could very well watch the program as it progresses. I might point out that under the present system, as you know, the overruns on contracts have been enormous in many areas, so that the present arrangement doesn't always tell the story as to what a program is ultimately going to cost.<sup>10</sup>

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<sup>8</sup>Ibid., p. 52.

<sup>9</sup>Ibid., p. 155.

<sup>10</sup>U. S., Congress, Senate, Subcommittee on Reorganization of the Committee on Government Operations, Hearing on Bills to Provide for Improved Methods of Stating Budget Estimates, 85th Cong., 1st Sess., 1957, p. 29.





One Congressman envisioned the Appropriations Committees, under the proposed procedure, as being able to "accelerate, decelerate, or stop the rate at which the program is scheduled"<sup>11</sup> by having been shown total estimated costs and the planned program showing financing required. In other words, the committees each year would be equipped to make a decision on the scope of work to be performed each year.

Dr. Gerhard Colm, of the National Planning Association, while generally critical of the concept, considered the principle of the annual review of all items in the budget a desirable feature of the accrued expenditure proposal:

After we had 1 year's experience with such a long-range project on missiles, then Congress should be given a reappraisal by the executive department and should, if necessary, modify the original action, irrespective whether that was contract authorization under the new proposal, or an appropriation, as it is at present.<sup>12</sup>

Criticism of the present process as being concerned only with new authority, rather than performance, reprogramming, or rebudgeting was brought out.

Congress now is asked to pass upon tremendous long-range programs merely on the basis of initial estimates of total cost of an entire program.

Where appropriations are inadequate to complete a program, Congress provides supplementary appropriations to take care of the situation but where budget estimates are high, there is no formal machinery whereby the situation regularly comes up for review and correction by Congress.<sup>13</sup>

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<sup>11</sup>U. S., Congressional Record, 85th Cong., 2d Sess., 1958, CIV, Part 14, 17651.

<sup>12</sup>House Committee on Government Operations, Bills to Improve . . ., Hearing, 1957, p. 235.

<sup>13</sup>Senate Committee on Appropriations, Bills to Provide . . ., Hearings, 1958, p. 141.





The Director of the Bureau of the Budget gave the following comparison of the present and proposed systems with respect to review:

. . . the obligation budget highlights the ordering of goods and services for a program--the beginning of the financial process. The accrued expenditure budget brings out for review the complete financial cycle--from ordering the goods and services, through the receipt of them (which establishes the liability to disburse funds from the Treasury), to their application to the program. In doing so, it provides control on both the commitment and expenditure of funds--the latter in terms of the goods and services received.<sup>14</sup>

It [accrued expenditure method] would enable more effective review because the budget request would show:

- (1) The estimated cost of what is planned to be done in the budget year as well as the total estimated cost of a project;
- (2) The proposed use of resources such as inventories that the agency has on hand;
- (3) The value of resources carried over for use in subsequent years;
- (4) The goods and services to be received in the budget year;
- (5) The obligating authority needed to contract for deliveries in subsequent years.

These kinds of information would be brought out by the financial plan for each program that would highlight past performance in relation to future plans.<sup>15</sup>

In contrast the obligation budget

. . . shows only the obligational requirements needed to cover the goods and services to be ordered in the budget year in the case of annual appropriations, or in the case of no-year appropriations, the goods and services to be ordered either in the budget year or in subsequent years. It does not reflect the use of inventories or the balance of resources on hand at the beginning and end of the year. It permits the buildup of appropriation balances and provides control only on

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<sup>14</sup>U. S., Congress, House, Committee on Government Operations, Providing for Improved Methods of Stating Budget Estimates and Estimates for Deficiency and Supplemental Appropriations, 85th Cong., 1st Sess., 1957, H. Rept. 572 to accompany H. R. 8002, p. 9.

<sup>15</sup>Ibid., p. 8.





the commitment of funds.<sup>16</sup>

The Assistant Comptroller General testified that furnishing cost data to Congress "would be greatly enhanced by teaming up the cost-based budget with the proposal for stating appropriations on an accrued expenditure basis. . . . This would provide the best opportunity for improved correlation of programming, budgeting, and accounting."<sup>17</sup> This would be because of the emphasis placed on total resources to be consumed and the extent of resources already available by the cost-based budget.

Cost budgets, teamed with appropriations on an accrued expenditure basis, said the Comptroller General, "would require a type of continuing budget presentation that would bring out the adequacy of management planning or the lack of it and give the Congress an opportunity to have a voice in setting the level of operations from year to year."<sup>18</sup>

This combination would also "be a means for promoting more cost consciousness and for focusing attention clearly on the work to be done in the budget year and the cost of the work. It would take into consideration the changes in inventory levels and other resources between the beginning and the end of the year."<sup>19</sup>

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<sup>16</sup>Ibid.

<sup>17</sup>House Committee on Government Operations, Bills to Improve . . . , Hearings, 1956, p. 33.

<sup>18</sup>Ibid., p. 216.

<sup>19</sup>Ibid., p. 165.



Not only the Congress, but the public, also, it was claimed would be permitted a "more complete and meaningful understanding of the financial operations of the Government."<sup>20</sup>

With reference to congressional review of long programs, it was maintained by many that "the Congress may review the performance and status of past programs without changing the basis of appropriations, and if it considers programs no longer justified, it may rescind appropriations even to the point of requiring contract terminations or cutbacks."<sup>21</sup>

While agreeing that Congress does have such authority, that is, to rescind funds or cancel appropriations, the proponents claimed it was rarely done.

The House Committee on Appropriations stated:

Of course, under present procedures the Congress, if it later changes its mind, can take action to rescind funds or repeal the authorization. Moreover, if the ultimate cost proves to be less than the funds provided the unused portion can be canceled or applied to other purposes, and this is frequently done.<sup>22</sup>

Thus, the Appropriations Committee indicated cancellation of authorizations of funds was frequently done only in event of completed programs, involving unused money. The accrued expenditure method was supposed to provide automatic annual review, and thereby look ahead in positively appropriating additional funds necessary for the next year, instead of,

<sup>20</sup>Ibid., p. 113.

<sup>21</sup>Ibid., p. 157.

<sup>22</sup>U. S., Congress, House, Committee on Appropriations, Administration Plan to Improve Congressional Control of the Budget, 85th Cong., 1st Sess., 1957, H. Rept. 216, p. 8.





as claimed, looking back as under the present system and negatively considering cancellations of funds previously authorized.

In this section on review of the budget, there has been discussion of "teaming" the cost-based budget with annual accrued expenditure appropriations, and of the reported advantages of such a procedure. It must be borne in mind that many of the benefits claimed by proponents of the accrued expenditure system with respect to budget review by Congress, would also be available to that legislative body if cost-based budgets were used within the presently existing obligational basis of appropriating. That is, the accrued expenditure base of appropriating would not have to be imposed in order to obtain many of the review reforms which were advocated, provided cost-based budgets based on accrual accounting were utilized.

#### Improved Congressional Control--

##### "Power of the Purse"

Two broad objectives which legislation in favor of annual accrued expenditures was designed to accomplish, in the words of one of the authors, were: "(1) Improve financial administration in the executive branch, and (2) substantially strengthen congressional control over the financial affairs of the Federal Government."<sup>23</sup>

The Director of the Bureau of the Budget said it would enable more effective control because:

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<sup>23</sup>House Committee on Government Operations, Bills to Improve . . ., Hearings, 1956, p. 115.





(1) Annual appropriation action would be taken on both the agency proposed programs and those underway;

(2) Appropriation carryovers would be greatly reduced or eliminated and balances of contract authority would either be reviewed or expire and be reapproved each year;

(3) Congressional appropriation action would be more directly related to the budget cash surplus or deficit.<sup>24</sup>

The Chairman of the Hoover Commission Task Force said it was his opinion that the proposed method "would strengthen congressional control because today appropriations in terms of obligations have become very nebulous."<sup>25</sup>

Former Senator Kennedy said:

It changes the method of stating budget estimates to give both the executive department and the Congress a better understanding and control of expenditures. When adopted [E. R. 8002], the budget will become a modern accounting device--a useful tool to control expenditures. It will no longer be an antiquated system whose purpose seems to be to deny information and supervision to the responsible authorities.<sup>26</sup>

In floor debate in the House, it was said that the bill "constitutes much more than a mere bookkeeping device. This legislation provides a financial tool, a means of supplying some realistic Congressional control over the annual rate of Government expenditures. . . ."<sup>27</sup>

Although it was understandable that because of the

<sup>24</sup>House Committee on Government Operations, H. Rept. 572, 1957, p. 8.

<sup>25</sup>House Committee on Government Operations, Bills to Improve . . . , Hearings, 1956, p. 97.

<sup>26</sup>Senate Committee on Appropriations, Bills to Provide . . . , Hearings, 1958, p. 90.

<sup>27</sup>Cong. Rec., CIV, Part 14, 17651.





enhancing of congressional control "there would be something less than complete enthusiasm on the part of the operating agency,"<sup>28</sup> the Assistant Secretary of Defense (Comptroller) has the following favorable comments to say:

A basic advantage which can be derived from the enactment of legislation of this character is that under the proposed legislation there would be increased emphasis both in the executive branch and in the Congress on the expenditure side of the problem--and this could serve an overall useful purpose. It would result in Congress sharing in the expenditure problem whereas today if expenditure limitations are to be imposed, it is solely the responsibility of the executive branch and in our case, the burden really rests with the Department of Defense.<sup>29</sup>

That Congress should have more complete control over expenditures by reason of its constitutional responsibility in the granting of obligational authority was brought out in a Senate report.<sup>30</sup>

A writer said:

The bill aims to recapture for Congress direct control of the billions of dollars, appropriated for military hardgoods, that pile up from year to year, waiting to be spent. The current total is put at some \$24-billion.<sup>31</sup>

Hazlitt wrote: "Only by this reform can Congress regain the 'power of the purse'--the control over annual spending--that

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<sup>28</sup>House Committee on Government Operations, Bills to Improve . . . , Hearings, 1956, p. 53.

<sup>29</sup>Senate Committee on Appropriations, Bills to Provide . . . , Hearings, 1958, p. 120.

<sup>30</sup>Senate Committee on Appropriations, S. Rept. 1866, 1958, p. 2.

<sup>31</sup>"Congress Tightens Reins on Long-Term Spending," Business Week, March 15, 1958, p. 134.





it has lost."<sup>32</sup>

The results of this practise [loss of control over spending] were brought out graphically by Sen. Harry F. Byrd in a statement on Oct. 2 last [1957]: "On the last day of the session I estimated that the President's January appropriation requests had been reduced by \$6 billion or more, and I called upon the President to reduce expenditures by the same amount. The President's mid-year review clearly indicates that these reductions in appropriations will result in virtually no reductions in Federal expenditures this year. Obviously the President will use unexpended balances in previous appropriations to keep expenditures at the level he estimated last January, or higher. This is contrary to the intent of Congress, which expected a substantial part of the reductions in appropriations to be reflected in this year's expenditures." The situation, the senator concluded, "clearly shows that Congress has lost control over Federal expenditures and makes it imperative that this control be recaptured."<sup>33</sup>

The foregoing statement was obviously designed to be read and considered by a public not very understanding of the details of the appropriation structure, because the implication is that the President was thwarting the will of the Congress by "dipping into hidden pots" to get the things he wanted in the budget presentation which was reduced. This, of course, is not true, but it does show that Congress has little, if any, control over the expenditure rate.

Typical of newspaper support for the accrued expenditure method was the following:

This means in practice that Congress' "power of the purse" is not quite as powerful as it seems. Nor is it going to be until Congress adopts one of the suggested budget reforms which would give it control not merely over money appropriated but over how much

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<sup>32</sup>Henry Hazlitt, "To Control Spending," Newsweek, January 6, 1958, p. 59.

<sup>33</sup>Ibid.





money is actually spent each year.<sup>34</sup>

However, there were many who said Congress does not lose control. Some of these agreed that the legislative control could be strengthened somewhat for the better, but many, again mostly Appropriations Committees Members, would not admit that even strengthening was necessary. A committee report said:

For example, if the Congress provides funds in one fiscal year for a special project such as 1,000 aircraft or an atomic carrier, which will require a total of, say, three or four years for full completion and delivery, how can it correctly be said that Congress has "lost" control of the purse strings merely because all the money will not be obligated or expended during the first year of the project? The Congress exercised its control over the purse in approving the project and the funds for the project.<sup>35</sup>

Recommendations leading to the proposed accrued expenditure method lay great emphasis on necessity of the Congress regaining control of the purse strings and in support thereof cite the billions of unexpended carry-over balances of appropriations at the end of a given fiscal year. The import of the suggestion seems to be that adoption of the new method automatically imparts to the Congress closer control of demands on the Treasury, with resultant substantial savings. It is true that large unexpended balances are in the hands of the departments each year and that in the annual appropriation bills the Congress does not now exercise direct annual control over their annual rate of disbursement.<sup>36</sup>

Harvey believed that "under the method proposed by the commission, [annual appropriations] would be arrived at by estimating the amount required to meet obligations already incurred with no possibility of control at that point."<sup>37</sup> This approach seems entirely reasonable. Unless drastic changes

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<sup>34</sup>The Wall Street Journal (New York), October 2, 1957, p. 6.

<sup>35</sup>House Committee on Appropriations, H. Rept. 216, 1957, p. 8.

<sup>36</sup>Ibid., p. 6.

<sup>37</sup>George Y. Harvey, "Contract Authorization in the Federal Budget Procedure," Public Administration Review, Spring, 1957, p. 122.





to projects already underway were intended by Congress, and this would play havoc with defense, as well as other programs, then the estimates of appropriations under the new method, would in fact, have to be based upon the best expectations of amounts already obligated which would become payable.

Continuing with his criticism, Harvey calls the approach defeatist and superficial.

The commission's proposal is a superficial approach that admits the necessity of letting the executive branch have authority to obligate the public Treasury years into the future, yet includes no provision for improved control. Future financing is necessary within limits, and the job is to find the limits.<sup>38</sup>

The proposal of the commission is, in a sense, a defeatist approach to the problem. It admits the necessity of granting to the agencies authority to make contracts and then attempts to control the flow of expenditures by separate action after the contracts are firm.<sup>39</sup>

If this is true, then it would certainly not provide the "power of the purse" which proponents agreed was an objective, unless Congress took upon itself the immense job of stopping, modifying, slowing down, speeding up, and otherwise harassing executive department programs already underway under some form of congressional authority.

#### Carryover Balances

The accrued expenditure method was given credit for the ability to reduce the large carryovers of unexpended balances. The Assistant to the Comptroller General said that the method would even "eliminate" the carryover balances "now available for expenditure at the discretion of the executive

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<sup>38</sup>Ibid., p. 124.

<sup>39</sup>Ibid., p. 122.





agencies."<sup>40</sup>

The present situation concerning available balances stems from the fact that congressional control through appropriation authorizations and Budget Bureau control through apportionments are both stated in terms of authority to obligate rather than budgeted work plans for the cost of goods and services estimated to be received.<sup>41</sup>

Often cited as an example of the huge carryover balances, and why they should be "eliminated," was the carryover for procurement and production with which the Army started fiscal year 1954, in the amount of \$12 billion. To this was added new obligational authority, providing \$15.2 billion available for 1954. Although the Korean truce agreement was signed shortly thereafter, and no additional funds were appropriated to that account for the next 4 years, money was still being expended as late as 1957. There was no accusation that any of the money was misspent. But, under the annual accrued expenditure method, it was claimed, Congress would have had to make an annual positive judgment on the spending, commencing in 1955.<sup>42</sup>

Since contract authority would have had to be used for long lead-time items under the procedure recommended by the Hoover Commission, the Assistant Secretary of Defense (Comptroller) said such authority "would not eliminate

<sup>40</sup>House Committee on Government Operations, Bills to Improve . . . , Hearings, 1956, p. 34.

<sup>41</sup>Ibid., p. 169.

<sup>42</sup>Senate Appropriations Committee, Bills to Provide . . . , Hearings, 1958, p. 135.





carryover authorizations. Nor will it of itself, reduce them . . ."<sup>43</sup> He likewise didn't see where a change "in the method of providing advance authority would change the amounts of carryover of unobligated authorizations in any way."<sup>44</sup>

Defending the amounts of unobligated balances in the Defense Department, the Assistant Secretary gave the following reasons for reserving authority for future obligations:

- (1) Shorter lead-time items.
- (2) Subsequent engineering changes.
- (3) First destination transportation.
- (4) Initial spares.
- (5) Work after delivery.<sup>45</sup>

The House Appropriations Committee described the similarity of carryover balances under either system, present or proposed:

What would happen if the shift were made to the suggested basis of appropriating, as provided in pending legislation, would be the elimination of large unexpended appropriation balances (which, of course, is not cash in the Treasury) and substitution of large unfunded contract authorization balances. Under either system, the grant of authority to obligate the Treasury to future cash expenditure occurs at the outset. A fiscal system cannot change the operating realities of the vast and complex programs of the Government or the point of time at which the necessities of the situation make a claim on the Treasury. Under either system, the large carryovers--and there will be similar large carryovers under both--will consist of (a) outstanding obligations and (b) unobligated amounts. Under either system, the die is cast as to eventual payment when the obligation is created. On this important point of timing of the obligation to future payment, therefore, the proposition

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<sup>43</sup>House Committee on Government Operations, Bills to Improve . . ., Hearings, 1956, p. 152.

<sup>44</sup>Ibid., p. 153.

<sup>45</sup>Senate Committee on Government Operations, Bills to Provide . . ., Hearing, 1957, p. 35.





is essentially a distinction without a difference. The day of reckoning--day of payment--is inevitable and, furthermore, the payment will normally occur at the same time under either system. Once the obligation or commitment sets the machinery in motion, the Congress can do little if anything to postpone the day of cash payment.<sup>46</sup>

The fact remains, eliminating all details of terminology, if the Government needs to contract a long time ahead of actual delivery for goods and services, then there will of necessity have to be a commitment binding the Government to pay, as well as the contractor to perform. No change in terminology, accounting or budgeting procedure, or appropriating method can alter that one fact.

#### Contract Authority

Any discussion of carryover balances leads also to a discussion of the causes of having such carryover. They could be grouped together under one term, contract authority.

Although the Hoover Commission Task Force on Budget and Accounting "gave a more detailed explanation of the need for some change in the system, neither the task force nor the commission gave an acceptable explanation of how the change from outright appropriations to contract authority would cure the defects complained of."<sup>47</sup>

The President realized that

There is, however, considerable difference of opinion within the Congress and the executive branch both as to the advantages and disadvantages of accrued expenditure appropriations and as to the methods

<sup>46</sup>House Committee on Appropriations, H. Rept. 216, 1957, p. 7.

<sup>47</sup>Harvey, Public Administration Review, Spring, 1957, p. 117.





that would be needed for the financing and control of obligations in advance of appropriations, primarily for long-lead-time programs.<sup>48</sup>

The Assistant to the Comptroller General provided the following explanation of the implementation of contract authority under the Hoover Commission recommendation:

. . . heretofore both the "contract authorizations" and subsequent appropriations "to liquidate contract authorizations" were stated in terms of obligational authority. Under the annual accrued expenditure basis of stating proposed appropriations, any necessary authority to enter into contracts and orders for future delivery of goods and services would be stated on the obligational basis but the appropriation of funds would be stated annually in terms of the accrued expenditures for the year based on the more precise planning possible on a year-by-year basis of planned performance.<sup>49</sup>

Harvey states that "contract authority, to be effective, must include all of the elements now included in an appropriation except the one step of making funds available for payment."<sup>50</sup> He also says, "control of expenditures would move to the executive branch at the time contract authority was granted, with the Congress required to take a second--and purely ministerial--action to provide money for payment."<sup>51</sup> It should be recognized then that changing from the present system to one of contract authorizations in which money for expenditures is provided by administrative action at some

<sup>48</sup> House Committee on Government Operations, Bill to Improve . . . , Hearings, 1956, p. 14.

<sup>49</sup> House Committee on Government Operations, Bills to Improve . . . , Hearings, 1957, p. 107.

<sup>50</sup> Harvey, Public Administration Review, Spring, 1957, p. 118.

<sup>51</sup> Ibid.





later time does not promise to furnish Congress very much, if any, additional control.

Critics . . . have had a field day in their comments concerning the administration of the no-year appropriations. Most of the criticism centers on the procedure which appropriates funds for the construction of a carrier or a missile system; and that this procedure results in large unencumbered balances at nearly all times. These critics overlook the fact that the annual allocation and apportionment process by which obligation authority is funneled down to the spending level constitutes a complete and thorough reevaluation and rejustification of each specific program for which apportionment is requested.<sup>52</sup>

Although not specific in its report, the Hoover Commission indicated that the Congress should restate the contract authority annually as needed. The Director of the Bureau of the Budget interpreted this to mean "that unused contract authority at the end of each year would lapse and that requests for new authority would be made as needed each year on the basis of program requirements."<sup>53</sup> That official also stated he desired to see a reconsideration of unused contract authority "in the interest of reducing this large unobligated dollar carryover."<sup>54</sup>

However, the Assistant Secretary of Defense (Comptroller) believed an interpretation such as this disadvantageous from the operating viewpoint:

<sup>52</sup>Performance Budgeting and Financial Management in the Department of the Navy, Research Report of the 1961 Class, Navy Graduate Comptrollership Program, The George Washington University, Washington, D. C., February 10, 1961.

<sup>53</sup>Senate Committee on Government Operations, Bills to Provide . . . , Hearing, 1957, p. 54.

<sup>54</sup>Ibid., p. 48.





. . . language such as "to reduce and eliminate the large carryover balances of appropriations from one fiscal year to another" . . . could easily be interpreted, and undoubtedly would be, under the explanations we have received, that you couldn't carry over the balances necessary to complete a project you have justified and which has been approved.<sup>55</sup>

We, in the case of the so-called long-lead-time items--and, incidentally, there is a misunderstanding about what they are--have endeavored to do a better job by discouraging the buying of every component at one time; for instance, buying everything needed for a ship at the time the keel is laid.

Yet, we should have the full authority to finish it because we shouldn't start it unless we are going to complete it, but there are certain armaments, certain gear to go aboard that ship that we should not buy in that first, or even the second, fiscal year. That would be unused obligational authority [unobligated] at June 30--the end of a fiscal year.<sup>56</sup>

The real question, the Assistant Secretary stated, is "should the Congress change its method . . . to one of appropriating money each year for expenditures and call for some other method which hasn't yet been defined to provide us our method of obligation authority to place contracts."<sup>57</sup>

The Defense Department also brought up the point that the legal consequence of contracting authority "is that the Congress (or any future Congress) is committed to making future appropriations to meet the required payments (including settlement of claims) in the case of contracts terminated for the convenience"<sup>58</sup> of the Government.

<sup>55</sup>Ibid., pp. 44-45.

<sup>56</sup>Ibid., p. 41.

<sup>57</sup>House Committee on Government Operations, Bills to Improve . . . , Hearings, 1956, p. 162.

<sup>58</sup>Ibid., p. 234.





Nevertheless, the Comptroller General maintained that the year-by-year congressional control of program performance,

. . . inherent in the annual accrued expenditure basis of stating appropriations, provides the Congress with an improved current and continuing tool for exercising restraint over contracting on a program when actual costs are substantially exceeding the original estimated costs, when performance is lagging behind schedule, or when the conditions under which the program was originally approved have changed substantially.<sup>59</sup>

He also asserted that the Government's liability to a contractor under a canceled or terminated contract

. . . would be no different than the Government's liability in similar circumstances under the present method of stating appropriations in terms of obligations. If, in the considered judgment of a Congress, a program entered into by an agency should be curtailed or eliminated in the best interests of the United States, the unperformed portion of the contract would be canceled and undoubtedly the Congress would, if necessary, appropriate funds to pay for the termination.<sup>60</sup>

The Senate Committee on Appropriations affirmed this position and added "it is almost inconceivable that the further action required of the Congress would not be forthcoming in order to make the payments. However, if by some improbable mischance this should be the case there is a clear and unequivocal remedy in the Court of Claims."<sup>61</sup> That committee desired to

. . . make it absolutely clear that the provisions of the bill H. R. 8002, if enacted, will have no

<sup>59</sup> Senate Committee on Government Operations, Bills to Provide . . . , Hearing, 1957, p. 26.

<sup>60</sup> Ibid.

<sup>61</sup> Senate Committee on Appropriations, S. Rept. 1866, 1958, p. 3.





effect on the liability of the United States to contractors. The Government's liability stems from the grant of obligational authority and not from the limitation on annual accrued expenditures.<sup>62</sup>

Smithies concurred that "if the Government did not provide assurance to contractors through appropriations, it would have to do the same thing in some other way."<sup>63</sup> However, he felt the annual system "would merely create the illusion of control and would provide even less information than the present system. The only adequate solution is for the Congress and the executive departments to look ahead at the time they make and recommend appropriations."<sup>64</sup>

But, serious objection to the concept of contract authority was forthcoming from the House Committee on Appropriations.

It is often viewed as "merely an authorization," with the consequent tendency to pass over it more lightly, to fail to give it the same thorough examination as a direct appropriation. Psychologically, the situation can be likened to a charge account at the store--relatively easy to open because it is not necessary to have the cash in hand. Moreover, subsequent appropriation bills incurred under prior contract authority are frequently viewed as being beyond reach--the attitude that "we have no choice but to pay the bill."<sup>65</sup>

The Defense Department agreed that "contract authority might be treated more lightly by the Congress in the granting than appropriations which also provide funds to finance it."<sup>66</sup>

<sup>62</sup>Ibid., p. 2.

<sup>63</sup>Arthur Smithies, The Budgetary Process in the United States (New York: McGraw-Hill Book Co., 1955), p. 137.

<sup>64</sup>Ibid.

<sup>65</sup>House Committee on Appropriations, H. Rept. 216, 1957, pp. 5-6.

<sup>66</sup>House Committee on Government Operations, Bills to Improve . . . , Hearings, 1956, p. 156.





The Chairman of the House Committee on Appropriations charged: "I can't think of anything that contributes more directly to irresponsible expenditure and unnecessary expenditure than such contract authority. And that is the heart of this bill."<sup>67</sup>

In the course of hearings on the proposed method, there were several references to the previously unsatisfactory procedure for granting of contract authority which was exercised by the Congress until 1950, when it was abandoned as unworkable and uneconomical. It is not the purpose of this paper to explore that facet, except to say that it was decidedly different from the contemplated method under the accrued expenditure principle and, therefore, would not bear on this discussion.

It was assumed that contract authorizations under the accrued expenditure method would be accounted for on an obligation basis, with the primary purpose of recording the authorizations being insurance that the total amount would not be exceeded.<sup>68</sup>

In defense of his task force's recommendation for a method such as contract authority within the accrued expenditure principle, the chairman stated:

That instead of being worse off than at present, in many cases the contractor could be better off. Because instead of getting contracts as to the performance of which he would have to speculate, the contracts that he got would be reasonably firm

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<sup>67</sup> Ibid., p. 189.

<sup>68</sup> Senate Committee on Government Operations, Bills to Provide . . . , Hearing, 1957, p. 9.





and if you coupled annual appropriation, annual expenditure authority with contracting authority under which long-term contracts could be entered into, you would do about the same thing you do now, but you focus attention on the amount of money you were going to spend in a particular agency within a particular period of time.<sup>69</sup>

Thus, the controversy surrounding the contract authority feature of the proposed method was basically one of implementation. It appears that the function it would perform would have to be present, regardless of the name or term assigned to it.

### Savings and Economy

The issue of economy and savings which might be possible under the method stemmed from the Second Hoover Commission's claim that \$4 billion could be saved by carrying out its recommendations. The result of this claim was that it created a tremendous public following, in addition to the support already mustering within the Government for implementation of the accrued expenditure principle. Some of the public actually believed that the \$4 billion savings was to be achieved each year from the accrued expenditure method alone.

However, the claim was discounted early by the House Committee on Government Operations.

The committee was not, however, impressed by the claims of the Hoover Commission and its task force that \$4 billion could be saved by carrying out the . . . recommendations. In fact, neither the representatives of the Hoover Commission, the Bureau of the Budget, the Comptroller General, nor any other officials were able to state how the \$4 billion figure was arrived at or in what way this saving could be made. We must conclude, therefore, that the figure of \$4 billion is a myth.

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<sup>69</sup>House Committee on Government Operations, Bills to Improve . . ., Hearings, 1956, p. 100.





The committee is not prepared to endorse any figure, large or small, that represents any saving that could be accomplished by enactment of the Hoover Commission recommendations.<sup>70</sup>

The Chairman of the Task Force on Budget and Accounting had said: "Once shaken down and operative I would hope there would be a decrease in the cost of accounting."<sup>71</sup> The Assistant to the Comptroller General believed "that the full implementation of . . . the accrued expenditure approach and cost budgets would create a great deal of economy if appropriately carried out."<sup>72</sup> The Acting Director, Bureau of the Budget said: "The saving . . . would come about through congressional action to revoke programs for which appropriations have previously been made."<sup>73</sup>

The opposite side was presented by the House Committee on Appropriations.

Far from contributing to economy and retrenchment, it tends to the opposite effect. It ties up the hands of the President and the Congress in making up and considering future appropriation budgets by introducing undesirable rigidities into the budget picture. It is a snare and delusion.<sup>74</sup>

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<sup>70</sup>U. S., Congress, House, Committee on Government Operations, Improving Governmental Budgeting and Accounting Methods and Procedures, 84th Cong., 2d Sess., 1956, H. Rept. 2734 to accompany H. R. 11526, pp. 4-5.

<sup>71</sup>House Committee on Government Operations, Bills to Improve . . ., Hearings, 1956, p. 98.

<sup>72</sup>Ibid., p. 49.

<sup>73</sup>Senate Committee on Appropriations, Bills to Provide . . ., Hearings, 1958, p. 111.

<sup>74</sup>House Committee on Appropriations, H. Rept. 216, 1957, p. 5.





It was the personal view of the Senate Appropriations Committee Chairman that: "From the hearings on H. R. 8002, and from experience in handling appropriation bills over the years, I seriously doubt whether the adoption of the annual accrued expenditure system will actually result in any savings to the American taxpayers."<sup>75</sup>

#### Administrative Requirements

To begin with, only those agencies which are able to formulate their budgets on a cost basis

. . . now have accounting systems which furnish, at successive stages of their operations, data showing the costs of goods and services ordered, received, and consumed. Such agencies can operate on a basis of accrued expenditure appropriations, and other agencies will be able to do so as soon as accounting systems which can produce information for cost budgeting are installed.<sup>76</sup>

There were many divergent views on the extent and cost of the administrative work required to operate an accrued expenditure system within an accrual accounting set-up. In its report to Congress, the 2d Hoover Commission stated: "It has been estimated that 90,000 full-time employees and tens of thousands of additional manyears in part-time efforts are needed to compile the financial facts which Government agencies need, and to assure the public of integrity in Government spending."<sup>77</sup>

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<sup>75</sup>Senate Appropriations Committee, S. Rept. 1866, 1958, p. 8.

<sup>76</sup>House Committee on Government Operations, Bills to Improve . . . , Hearings, 1956, p. 14.

<sup>77</sup>U. S., Commission on Organization of the Executive Branch of the Government, Budget and Accounting: A Report to the Congress, June 1955 (Washington: U. S. Government Printing Office, 1955), p. ix.





In the executive branch, the salaries alone of full-time employees in the accounting and fiscal fields overall are estimated at \$316,000,000. And, as the \$62,400,000,000 covered by the budget is spent, the legislative branch, through its agent, the Comptroller General, must review and audit all of these accounts. He employs 5,726 people at an annual cost of \$32,000,000.<sup>78</sup>

The Department of Defense estimated that the accrued expenditure method "could require additional unnecessary work in separate administrative funding . . . , with no compensating advantage."<sup>79</sup> The number of additional people to be required was placed by that department at an estimated 5,000 to 6,000 for their accounts alone. The basis for the estimate was that it would take almost as many as for an allotment system for obligations.<sup>80</sup>

The Bureau of the Budget, however, took exception to this estimate as being excessive.

We do not believe any significant amount of additional clerical work should result from the use of limitations on accrued expenditures. We can see no basis whatsoever for estimates indicating the necessity for 5,000 additional people in one department.

Under the accrued expenditure limitation procedure, additional clerical work may be necessary in some cases. However, we believe this will be insignificant in relation to the management benefits to be derived from this procedure. Furthermore, we would hope that refinements in accounting systems can be made so as to offset any additional work which may be required.<sup>81</sup>

<sup>78</sup>Ibid., pp. 1-2.

<sup>79</sup>House Committee on Government Operations, Bills to Improve . . . , Hearings, 1956, p. 156.

<sup>80</sup>Senate Committee on Appropriations, Bills to Provide . . . , Hearings, 1958, p. 128.

<sup>81</sup>Ibid., p. 117.





The Chairman of the Defense Department Appropriations Committee in the House said: "They would have to hire so many accountants you would have to establish many additional schools at Government expense, I am afraid, to train them."<sup>82</sup>

It is very probable that such a difference of opinion as the extent of additional clerical and administrative work required could be resolved only by actual implementation results.

### Budget Estimating

The problem of estimating accrued expenditures for the purpose of submission within the agencies' budgets for approval by Congress was brought into the discussion, and received more response from contractors in the defense industry than did the contract authority issue.

Presenting his department's position, the Assistant Secretary of Defense (Comptroller) said:

You can't estimate accurately in our type of material item by item. Overall statistical estimates must be used. One of your problems is this would not provide a very good method of budget justification, although I might say we take the department as a whole, the whole shipbuilding program, or the aircraft program running 6 or 8 billions of dollars, we can estimate quite well what it [sic] is going to be spent for the program as a whole, but not contract by contract, or item by item.<sup>83</sup>

Difficulty of estimating accrued expenditure for long lead-time programs by each fiscal year is a disadvantage.<sup>84</sup>

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<sup>82</sup>House Committee on Government Operations, Bills to Improve . . ., Hearings, 1957, p. 136.

<sup>83</sup>House Committee on Government Operations, Bills to Improve . . ., Hearings, 1956, p. 156.

<sup>84</sup>Ibid., p. 155.





. . . if you do a decent job of it you will always have an estimate far higher than the amount needed. If you examine any program you will have to examine it in such a way as to take care of any possible requirements under the contract. But if there is a shortage of material, if the design doesn't work out, and the progress of the work doesn't go on as originally scheduled, if there is a strike or bad weather or something of that nature, you won't spend it.<sup>85</sup>

The problem of non-delivery of material anticipated to be received was also discussed by that official.

If you had \$500 million worth of material which could not be delivered by June 30, and we did not know about it in the spring when the budget was submitted, we would have to ask for an amendment in the bill to provide for the increased limitation in the following year, even though we had not used all of the previous year's limitation.<sup>86</sup>

Relating to the estimating problem, the United Aircraft Corporation furnished the following statement:

The imposition by Congress of a limitation on annual accrued expenditures each year is going to put a premium on the estimating ability of the Department of Defense. If too low a ceiling is established for any given year, then the DOD may run out of spendable funds before the year has expired and contractors will once again be in an era of financial drought. This would be true even though the original appropriations were more than ample. The answer to this problem, given by the sponsors of the amendment [Wigglesworth amendment, providing for limitations on annual accrued expenditures], is that if such a thing should happen the DOD could always come back to Congress, justify the overrun and obtain an increase in the limitation. We know, however, that as a practical matter this would all be time-consuming and some financial hardship would result.<sup>87</sup>

An official of the Bureau of the Budget replied to this

<sup>85</sup> Ibid., p. 156.

<sup>86</sup> Senate Committee on Appropriations, Bills to Provide . . . , Hearings, 1958, p. 126.

<sup>87</sup> Ibid., p. 131.





position that "admittedly, there would be some operational problems that would have to be worked out. However, the proposal provides for flexibility in converting to the new basis."<sup>88</sup>

#### Effects on Program Accomplishment

Recognizing that deliveries of goods and services may occur in years other than the year in which they were funded, the Director, Bureau of the Budget stated: "It would be necessary to reschedule other deliveries to keep accruals within the sum appropriated, or else get authority in a supplemental appropriation act to transfer a portion of the following year's appropriation to cover the excess of deliveries in the current year."<sup>89</sup>

It was also said, in minimizing the problem, that:

Experience shows that within such appropriations early deliveries and slippages at the end of a fiscal year could be expected to offset each other to a considerable degree. In some cases, supplemental requests for a change in limitation may be necessary, but this should present no greater problem than under present practices, which frequently entail the need for supplemental action by the Congress.<sup>90</sup>

Smithies claimed that "such restrictions could easily produce waste and inefficiency. They could result in delay in completion of work on construction projects or needless delay

<sup>88</sup>Percy Rappaport, "Improvement of Financial Management in the Government," The Federal Accountant, VI, No. 4 (June, 1957), 11-12.

<sup>89</sup>Senate Committee on Government Operations, Bills to Provide . . ., Hearing, 1957, p. 55.

<sup>90</sup>Senate Appropriations Committee, Bills to Provide . . ., Hearings, 1958, p. 117.





in the delivery of military material."<sup>91</sup>

. . . [the President] may find that commitments from previous years are so controlling that little can be done. Or he may seriously disrupt programming for future years by cutting appropriation requests for the sake of the limited effects of those cuts on current expenditures.<sup>92</sup>

Rigid adherence to each part making up the whole of the appropriation, the Defense Department claimed, "particularly during a period of changing programs and costs, would unduly jeopardize effective accomplishment of current planned programs."<sup>93</sup>

Important spokesmen for industry, particularly those involved in long lead-time production for the military establishment, were the Raytheon Manufacturing Company and the United Aircraft Corporation. The former analyzed the legislation which was eventually enacted as limiting "expenditures under Government contracts to a specific amount per fiscal year, irrespective of whether such periods coincide with logical contractual check points of performance, or whether appropriations have been set aside for the balance of performance required after each fiscal year for which funding has been accomplished."<sup>94</sup>

United Aircraft felt that the proposed procedure could easily result in shutting off of funds to contractors.

<sup>91</sup>Smithies, The Budgetary Process . . . , p. 191.

<sup>92</sup>Ibid., p. 103.

<sup>93</sup>Senate Committee on Government Operations, Bills to Provide . . . , Hearing, 1957, p. 36.

<sup>94</sup>Senate Committee on Appropriations, Bills to Provide . . . , Hearings, 1958, p. 136.





It is a system which sounds good on paper but will not work in practice. It is quite all right, for example, to visualize a closing of the books on June 30, and the opening of a new set on July 1. The resultant paperwork would be heavy but perhaps not insurmountable. However, far more than this would be involved under S. 434. The closing of the books on June 30 would also shut off the flow of funds under continuing contracts for work performed and deliveries made after June 30. The opening of the books on July 1 could not possibly start the flow of new funds immediately. It would be only the first step in a complete series of administrative actions leading finally to the flow of funds from the Treasury. . . . Then the elephantine process of writing or amending thousands upon thousands of contracts must be undertaken. Eventually, with his executed document in hand, the contractor for the first time since July 1 is able to collect payments. It has been our experience that 3 to 9 months are required to complete this administrative work.<sup>95</sup>

None of the major aeronautical and missile contractors could finance themselves for any such extended period. The result would be chaotic, and the attendant disruption and dislocation of production would be disastrous to Government and industry alike.<sup>96</sup>

It should be borne in mind that the foregoing statements by United Aircraft referred primarily to the accrued expenditure concept as recommended by the Hoover Commission, and not as it was finally enacted into law. That the major defense contractors played an important role in swinging Congress toward the ultimate version is shown in the next chapter on legislative history.

#### Correspondence Between Appropriation

##### Obligations and Expenditures

It is important to understand that, as Smithies says, "for the ordinary administrative operations of government, there is a fairly close correspondence between appropriations

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<sup>95</sup>Ibid., pp. 135-36.

<sup>96</sup>Ibid., p. 136.





and expenditures in any year . . . for items such as personal services the carry-over into future years is small."<sup>97</sup>

However, for items which take a long time to develop, such is not the case. Also, in times "of rapid change in government programs, there may be wide divergences between appropriations and expenditures. The expenditures in any one year may result largely from appropriations of previous years."<sup>98</sup>

Under the proposed method there would be a "better understanding by many of the Government's financial operations. Appropriations would be more in line with estimated withdrawals from the Treasury."<sup>99</sup>

But, any advantages under the method would definitely be limited to those appropriations which finance long lead-time items since correlation of obligations and expenditures pertaining to other items, in any given year, is already present to a considerable degree.

#### Over-emphasis on Accounting?

One of the Second Hoover Commission members, Commissioner Holifield, in a separate, dissenting statement included in the report to Congress, said: "The end result of the . . . recommendations may be formal consistency in accounting principles rather than actual gains in economy and efficiency."<sup>100</sup>

<sup>97</sup>Smithies, The Budgetary Process . . ., p. 103.

<sup>98</sup>Ibid.

<sup>99</sup>House Committee on Government Operations, Bills to Improve . . ., Hearings, 1956, p. 155.

<sup>100</sup>Commission on Organization . . . , Budget and Accounting . . ., p. 72.





Smithies had this to say about the traditional association of budgeting with accounting:

. . . the normal horizontal division of function in a government department is between policy, planning, and programming on the one hand and budgeting and accounting on the other. . . . If the policy group becomes dominant, the organization tends to base its decisions or its recommendations too much on requirements or needs rather than on the notion that its purpose is to achieve an efficient use of scarce resources. Conversely, if the budget and accounting group becomes dominant, budgetary officers tend to make policy judgments on the basis of inadequate knowledge. A third possibility is that the policy group is so much out of touch with budgetary limitations that its proposals are of little use in the preparation of a realistic budget.<sup>101</sup>

It should be evident, then, that an optimum balance between planning and budgeting/accounting is desirable. "In view of these possibilities, horizontal arrangements should recognize that both policy and accounting viewpoints have essential roles to play in the preparation of a budget and the actual function of budgeting should not be identified with either point of view."<sup>102</sup>

In regard to the accrued expenditure proposal, it was often termed "the accountant's dream."<sup>103</sup> A denial of this came from the Chairman of the Hoover Commission Task Force on Budget and Accounting.

This task force consisted of people who were not essentially professional accountants, lest somebody

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<sup>101</sup>Smithies, The Budgetary Process . . . , p. 44.

<sup>102</sup>Ibid., pp. 44-45.

<sup>103</sup>House Committee on Government Operations, Bills to Improve . . . , Hearings, 1957, p. 135.





look upon its work as a technician's dream. The members of the task force were [from top management in industry].<sup>104</sup>

#### Retention of Obligational Base

It was said that in the past the Government has tended to emphasize obligational control with little attention to the expenditure side, but that overemphasis on either one would be weak.<sup>105</sup>

One professional accountant stated that:

. . . it is sometimes assumed they are separate and distinct, and should be kept independent of each other. This is neither necessary nor desirable. Appropriations, obligations, costs, expenditures, disbursements, deal with the same transactions at different stages. They can and should be covered in a single integrated system which should also include financial accounting for property, both consumable and fixed.<sup>106</sup>

With respect to the Hoover Commission recommendations in general, that same accountant felt that "all of the emphasis, . . . is on the accrual basis and on the cost basis and virtually no mention of the continuing and equal necessity for obligation."<sup>107</sup>

It is apparent that there was some impression that the two bases of budgeting and accounting for obligations and costs are somehow in conflict, and that the obligation base could be done away with. This would appear to be a false assumption. The Assistant Secretary of Defense (Comptroller) said "the use

<sup>104</sup>House Committee on Government Operations, Bills to Improve . . ., Hearings, 1956, p. 101.

<sup>105</sup>Ibid., p. 154.

<sup>106</sup>Ibid., p. 176.

<sup>107</sup>Ibid., p. 182.





of the obligation base is indispensable, as demonstrated over the years, in congressional control of the purse."<sup>108</sup>

The Department of Defense, in fact, took the position of favoring the annual accrued expenditure method only if provision was made for continuing the merits of the obligational basis.<sup>109</sup>

### Economic Implications

The "annual" feature of the accrued expenditure proposal was questioned by Dr. Gerhard Colm of the National Planning Association. "With respect to the long-lead projects, I wonder whether an appropriation 'available until completed' is not more conducive to economical management than annual appropriation for the work to be done in that particular year."<sup>110</sup>

"Since not all Government programs can be consummated within a year, it is, in my opinion, an illusion to believe that we can budget on a 365 days' basis."<sup>111</sup>

I believe we should recognize that for certain programs budgeting methods must look beyond the 365 days basis if they are to be realistic and not conducive to waste. The future financial costs of new programs should be recognized when they are proposed and deliberated and should be considered in the context of their economic and fiscal implications for a number of years.<sup>112</sup>

Referring to the present system of estimating expenditures, Dr. Colm testified:

<sup>108</sup> Ibid., p. 150.

<sup>109</sup> Ibid., p. 236.

<sup>110</sup> House Committee on Government Operations, Bills to Provide . . . , Hearings, 1957, p. 230.

<sup>111</sup> Ibid., p. 229.

<sup>112</sup> Ibid., p. 234.





In my judgment, it is useful that the financial planning of the Government is based on the best estimates of expenditures which can be made, which in the case of long-range projects take account of these delays in actual spending.

In the case of long-lead projects there is no direct relationship between expenditure estimates and the request for appropriations. Consequently, the agencies are apt to make a more realistic allowance for those delays than if the relationship between appropriations and financial planning were more closely tied together.<sup>113</sup>

At this point, with the realization from earlier sections of this chapter that the accrued expenditure system on an annual basis would not be much different from the present obligational system for all items except long lead-time goods and services, and with the possibility, if the foregoing statements are soundly based, that it would be difficult if not impracticable to plan the spending on long term programs on an "annual" basis, it would seem logical to assume that the proposed method has very little merit. But, as has been shown, there are definite advantages to the system from the point of view of congressional review and "control" of expenditures. The question, then, is do the advantages outweigh the disadvantages?

#### Other Arguments

It was generally agreed by the proponents of the annual accrued expenditure method that the President could, if he so desired, have submitted the budgets under that procedure for those agencies which were in a satisfactory stage of advancement in accrual accounting and cost-based budgeting, although the





Congress would have been under no obligation to appropriate in a like manner. The proponents, however, requested legislation upon which to base adherence to the concept in order to provide the executive agencies stimulus which they felt was necessary in order to accomplish the changeover.<sup>114</sup> The President, of course, was included in this group.

The opposition at times said that merely because a method had been successfully used in private industry was no assurance that it was best for the Government. Anticipating such a position, the Task Force on Budget and Accounting, in its report, stated:

We anticipate that the proposal may meet the usual resistance which attends any major change in Government procedure. However, the timeworn defense that Government by its nature is so different from industry that business standards must be compromised has no validity.

It has been demonstrated that where the will exists the counterpart of industrial performance is possible. An outstanding example is found in the accounting and budgeting performance of the Atomic Energy Commission.<sup>115</sup>

The Director of the Bureau of the Budget testified that most corporations operate on a system similar to that proposed. "The board of directors authorizes a contract authority but the actual budget is on accrued expenditure basis."<sup>116</sup>

<sup>114</sup>House Committee on Government Operations, Bills to Improve . . . , Hearings, 1956, p. 46.

<sup>115</sup>U. S., Commission on Organization of the Executive Branch of the Government, Task Force Report on Budget and Accounting in the United States Government, June 1955 (Washington: U. S. Government Printing Office, 1955), p. 40.

<sup>116</sup>House Committee on Government Operations, Bills to Improve . . . , Hearings, 1957, p. 96.



However, the Assistant Secretary of Defense (Comptroller) attempted to clarify such a comparison with industry.

This unfavorable impression of the obligation basis seems to be derived from statements made by some members of the accounting profession who have found the pattern of accounting in Government different from that area of industrial accounting to which they are accustomed.

Traditionally, external financial reports of private enterprise emphasize the determination of periodic accrued revenues, related accrued costs, and resultant profits. Secondarily, statements of financial condition show assets, liabilities, and capital on a related basis. Legal commitments for the future delivery of goods and services are not generally reported because they do not involve current costs or assets on hand.<sup>117</sup>

Harvey said the Hoover Commission might have rendered great service had it gone to the root of the trouble,

. . . sought out the causes of each of the carryover balances, and attempted to find a way of eliminating them. What it offers is a palliative for symptoms when what is needed is heroic surgery to find the cause of the disease and eliminate it. Large balances exist in just a few items involving only a few offices of the government. Each of them could be readily isolated for special study.<sup>118</sup>

In other words, Harvey saw no need for an across-the-board system change, involving all agencies. That the proposal for annual accrued expenditures was dealing only with the symptoms, and not the cause, was also seen by Bell, who said the measure fell "into the category of dealing with the trees instead of the woods."<sup>119</sup>

<sup>117</sup>House Committee on Government Operations, Bills to Improve . . . , Hearings, 1956, pp. 150-51.

<sup>118</sup>Harvey, Public Administration Review, Spring, 1957, p. 124.

<sup>119</sup>Heywood Bell, "Spending Control: Today's Challenge," Tax Review, XIX, No. 3 (March, 1958), 11.





Loeffler saw the "advocacy of an 'annual' system in the United States [as] based on a faulty comparison with the British system, where the departments, with Treasury consent, do have the power to contract in anticipation of appropriations."<sup>120</sup> Therefore, such a comparison would not seem justified in view of the U. S. Congress' constitutional duty to grant all authorizations in advance of obligation.

The House Committee on Appropriations saw the proposed method as "but one in a series of suggestions for balancing the budget or reducing expenditures merely by 'changing the system.'"<sup>121</sup>

Changing over to the new basis would in no wise alter the operating realities or needs of the vast and complex programs of the Government. If operating necessities require advance commitment or obligating authority to permit of orderly program management and execution under present budgetary procedures, they will require similar authority under the accrued-expenditure method.<sup>122</sup>

That same committee probably had in mind working on the "woods" instead of dealing with only the "trees," when it reported:

No funds whatsoever can be withdrawn from the Treasury save in consequence of valid authority granted by the Congress to first create an obligation in behalf of the Government. That is the beginning point in the budgetary process--the point of control--and it is the key to the situation. The most consistently accurate barometer to future spending levels is the dimensions of authority accorded by the Congress to enter into

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<sup>120</sup>Herman C. Loeffler, "Alice in Budget Land," National Tax Journal, August, 1951, p. 54.

<sup>121</sup>House Committee on Appropriations, H. Rept. 216, 1957, p. 6.

<sup>122</sup>Ibid., p. 5.





obligations on behalf of the Government. Denial of authority to obligate precludes a subsequent expenditure. Curtail the input of new appropriations (and other forms of obligating authority) and spending will come down. Grant authority to obligate and the expenditure inevitably will follow in due time. Many who advocate changing to the accrued expenditure basis of stating appropriations do not seem to fully appreciate or recognize this extremely simple truth.<sup>123</sup>

### Summary

Of the advantages argued in favor of the accrued expenditure concept, only better and more efficient review by Congress of the executive agencies' past, present, and contemplated future performance of their programs stands out as valid. Congressional control and "power of the purse" tie in with this advantage, but only insofar as it is recognized that the most efficient control is exercised at the instance of the original granting of authority to obligate (or expend upon) the Government, and not at a later correction.

There is no doubt that the control of expenditures under the accrued expenditure method would tend to facilitate more accurate prediction of the national debt limit for any given year, provided that the accrued expenditures could be controlled in actual practice as closely as estimated expenditures now approach actual cash disbursements. This, to be an advantage, would clearly depend upon implementation results, and does not stand out as clearly as does the review advantage, which would be realized in the budget authorization stage and would not depend upon execution.

On the other hand, the review advantage very possibly

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<sup>123</sup>Ibid., p. 6.



might be as satisfactorily obtained from the use of cost-based budgets, derived through the use of accrual accounting, with the obligation base of appropriating retained, and with no involvement of the accrued expenditure concept.

The proposed method would not eliminate carryover balances; it could, however, change the form or terminology attached to those balances.

It is possible that some economy and savings could be achieved by the method, but there would appear to be additional and offsetting administrative costs. Better and more efficient management could possibly be realized, but such results might be credited to the more modern and efficient accrual accounting and cost-based budgeting techniques which would have to be installed in order to adopt the accrued expenditure system within a particular agency or department.

Program accomplishment might not be adversely affected by the method, but because of its "annual" character, there is the definite possibility that more harm than good would be done in this area.

It is perfectly clear that the proposed annual accrued expenditure system would not automatically solve all of the problems inherent in Federal budgeting.





### CHAPTER III

#### LEGISLATIVE HISTORY OF LIMITATIONS ON ANNUAL ACCRUED EXPENDITURES

##### Mass of Support in Favor of Method

Public and official support urging action on the annual accrued expenditure method of stating budget estimates and appropriating has been very nearly overwhelming, for the reasons discussed in the preceding chapter. It is evident that the majority of the support offered on the part of the general public can be attributed to almost an emotional and sincere belief that implementation of the method would save huge amounts of Government expenditures. It is entirely understandable that any procedure which promised savings in the extremely high level of Federal spending, and thereby might give promise of personal tax reductions, would be well supported.

However, the belief or even hope that savings might be a realized benefit of the accrued expenditure method was liberally discounted and seldom stressed by Government officials and knowledgeable citizens.<sup>1</sup> The support on the part of these persons can generally be attributed to other features of the method.

The Secretary of the Treasury, the Director of the

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<sup>1</sup>Supra, Chap. II.





Bureau of the Budget, and the Comptroller General of the United States strongly recommended the enactment of legislation which would authorize the conversion of appropriation estimates to an annual accrued expenditure basis.<sup>2</sup>

The President on four separate occasions--a special message to the Congress, May 10, 1956; a statement when he signed Public Law 863, 84th Congress, August 1, 1956; his budget message to the 85th Congress, January 16, 1957; and a letter to the Speaker of the House of Representatives, April 18, 1957--has requested this authority.<sup>3</sup>

When he signed Public Law 84-863 (70 Stat. 782), which provided for accrual accounting and cost-based budgeting, the President stated:

As originally introduced, . . . the bill would have provided for adoption of the accrued expenditure appropriation procedure. Such a provision in law would have been highly desirable and would have many benefits both for the legislative and executive branches.

I shall recommend to the next Congress that further consideration be given to the enactment of legislation which will permit the use of accrued expenditure appropriations whenever such procedure is considered appropriate in relation to the improved budget and accounting systems developed under the new law [84-863].<sup>4</sup>

The President also urged passage of such legislation in his message to Congress for fiscal year 1959, January 13, 1958:

<sup>2</sup>U. S., Congress, Senate, Committee on Appropriations, Hearings, To Provide for Improved Methods of Stating Budget Estimates for Deficiency and Supplemental Appropriations, 85th Cong., 2d Sess., 1958, pp. 9-10.

<sup>3</sup>Ibid., p. 9.

<sup>4</sup>U. S., Executive Office of the President, Bureau of the Budget, Improvement of Financial Management in the Federal Government, October 1956 (Washington: U. S. Government Printing Office, 1956), p. 40.



Legislation now pending before the Congress to place Government appropriation requests on an accrued expenditure basis should be enacted, in accordance with the recommendations of the Hoover Commission. This is a businesslike approach, and it is hoped that the opposition that developed in the past will be withdrawn as a result of further study and modifications in the way the procedure is to be applied.<sup>5</sup>

That such "opposition" as the President referred to in his foregoing message did not "withdraw," but fought the enactment of the accrued expenditure method through its entire legislative history, is shown in the following section.

#### "Small Band" of Opposition

The opponents of the accrued expenditure principle in the House generally included "the ranking Democratic and Republican members of the Appropriations Committee, and 30 of the 40 committee members."<sup>6</sup> A second source of opposition was attributed to "certain accountants in the Department of Defense, who have been utilizing their huge reservoir of carry-over funds."<sup>7</sup>

However small in numbers the members of the congressional opposition might have been, they were given credit for:

. . . an almost unearthly faculty for planting technical and procedural land mines, creating confusion, and procuring delay. With all the

<sup>5</sup>Senate Committee on Appropriations, To Provide for Improved . . . , Hearings, 1958, p. 44.

<sup>6</sup>"Congress Tightens Reins On Long-Term Spending," Business Week, March 15, 1958, p. 134.

<sup>7</sup>Report of the Citizens Committee for the Reorganization of the Executive Branch of the Government, Inc., Washington, D. C., July 18, 1958, p. 4.





tricks left in their bag, they still have a good chance of stalling the legislative machinery until time runs out.<sup>8</sup>

The opposition was also accused of having made "every attempt to thwart the will of Congress and prevent this legislation, which will bring some reform in budgeting practices and fiscal policies in the handling of the public's money, from being passed."<sup>9</sup> "Virtually all opponents of accrued expenditure legislation overlook what its sponsors consider its most important feature--that is annual review of spending."<sup>10</sup>

A careful study of the structure of Congress would probably reveal the following as bearing on the consistently strong opposition afforded by members of the House Appropriations Committee:

Power in Congress is power to represent one's constituents more adequately, which, in turn, is additional power to get re-elected. It [power] is greatly sought in Congress. Those who have it are largely on the receiving end of benefits flowing from the seniority system. But special power held by members of the Appropriations Committees is not exercised for the nation as a whole.

As it is, Congress and the nation must rely heavily on the judgment of congressional Appropriations Committees, and if there is another source of information, their power is considerably diffused and their judgment not so vital.<sup>11</sup>

<sup>8</sup>Ibid., p. 2.

<sup>9</sup>U. S., Congressional Record, 85th Cong., 2d Sess., 1958, CIV, Part 14, 17649.

<sup>10</sup>White Paper Number Three, Annual Accrued Expenditure Budgeting: What It Means and Why It is Needed, Citizens Committee for the Reorganization of the Executive Branch of the Government, Inc., Washington, D. C., December 1, 1957, p. 4.

<sup>11</sup>Robert Ash Wallace, Congressional Control of Federal Spending (Detroit: Wayne State University Press, 1960), pp. 173-74.





The House Committee on Appropriations issued a report during March 1957 "on its study of the plan suggested by the executive branch to improve congressional control of the budget. While the plan itself did not specifically deal with the stating of appropriations on an annual accrued expenditure basis, it was included in the study. . . ."12

. . . it is the view of the subcommittee on Defense Department Appropriations that the accrued-expenditure method should not be adopted. It has disadvantages and offers no improvement. This is not to infer that present methods and processes are perfect or the best. There may be a better way to present and process the Federal budget. The best system that can be devised ought to be employed, but the proposed accrued-expenditure method is not it. The point is, there is no simple shortcut, no magic retrenchment device. No budgetary system has a built-in guaranty of economy or efficiency.13

Although there were numerous public organizations which openly supported the accrued expenditure legislation, neither the National Association of Manufacturers nor the United States Chamber of Commerce was included.14

#### Congressional Consideration

Several bills designed to implement the Second Hoover Commission's recommendations on budgeting and accounting were the subject of hearings held in the Senate during March 1956. Attention was mainly directed toward one of the bills, S. 3199.

12U. S., Congress, Senate, Committee on Government Operations, Financial Management in the Federal Government, 86th Cong., 2d Sess., 1960 (Washington: U. S. Government Printing Office, 1961), p. 99.

13U. S., Congress, House, Committee on Appropriations, Administration Plan to Improve Congressional Control of the Budget, 85th Cong., 1st Sess., 1957, H. Rept. 216, p. 8.

14Business Week, March 15, 1958, p. 134.





During the hearings, it was agreed that some of the objectives of the bill could be attained by administrative action and, therefore, no additional legislation was required in these areas. On the other hand, the bill did not provide for the submission of budget requests to Congress based on an accrued expenditure basis, one of the important recommendations of the Hoover Commission.

At the conclusion of the hearings, the staff of the committee [Subcommittee on Reorganization of the Committee on Government Operations], in collaboration with representatives of the General Accounting Office, the Bureau of the Budget, and other Government agencies, redrafted the bill. Those objectives which could be attained by administrative action were omitted and specific language authorizing the submission of budgetary request on an annual accrued expenditure basis was added. The revised bill (S. 3897) was introduced on May 21, 1956, by the chairman of the subcommittee with 30 Senators as co-sponsors. Further hearings were held by the subcommittee and, on June 7, 1956, the bill was unanimously reported . . . by the full committee. It passed the Senate on June 20, 1956.<sup>15</sup>

However, in the house, the provision for submission of budgetary requests for appropriations on an annual accrued expenditure basis was eliminated by the Committee on Government Operations in reporting H. R. 11526, a companion bill to S. 3897.<sup>16</sup> In its report the committee stated in part:

The committee heard strong testimony from the chairman of the Committee on Appropriations of the House and the ranking minority member of that committee objecting to the accrued expenditure device primarily on the ground that it would necessarily lead to contract authority for programs which extend beyond 1 fiscal year. It was felt that contract authority weakened congressional control, and it would not realize the benefits claimed. On the basis of these objections and the committee's own study, the provision for appropriations on an annual accrued expenditure was deleted from the bill.<sup>17</sup>

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<sup>15</sup>Senate Committee on Government Operations, Financial Management, p. 93.

<sup>16</sup>Ibid.

<sup>17</sup>U. S., Congress, House, Committee on Government Operations, Improving Governmental Budgeting and Accounting Methods and Procedures, 84th Cong., 2d Sess., 1956, H. Rept. 2734 to accompany H. R. 11526, p. 4.





The House of Representatives passed S. 3897 on July 13, 1956, after amending it by inserting the language of H. R. 11526 in lieu of the text of the Senate bill. The Senate disagreed to the House amendment and asked for a conference. The conferees met on July 19, 1956, at which time the House insisted on striking out the provisions that budgetary requests be submitted to Congress on an annual accrued expenditure basis. As a result, three Senate conferees refused to sign the conference report. The remaining Senate conferees agreed to the report after receiving assurances from the House conferees that this requirement would be reconsidered during the next Congress. The House conference report . . . made no reference to reconsideration in the next Congress, whereupon serious objection was raised by several Senators on the floor of the Senate . . . before the conference report was approved.<sup>18</sup>

Although it did not include the accrued expenditure device, S. 3897 as enacted into Public Law 84-863 (70 Stat. 782), did provide for cost-based budgets, an accrual accounting program, and a simplified allotment system which is the foundation of an accrued expenditure system.<sup>19</sup> Advantages of cost-based budgeting, in conjunction with accrual accounting, are discussed in a later chapter insofar as they provide at least some of the objectives claimed by proponents of the accrued expenditure system.

At the beginning of the 85th Congress, several bills were introduced to provide for stating appropriations on an accrued expenditure basis. During study, consideration, and debate on that principle lasting over 2 years, the major question raised was:

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<sup>18</sup>Senate Committee on Government Operations, Financial Management, p. 94.

<sup>19</sup>Ibid., p. 95.





. . . whether it gave Congress tighter control over Government expenditures. Many members contended that it was the best way to obtain this control, which the Congress does not have. The proponents of the legislation cited the billions of dollars appropriated by Congress and carried over each year by the executive departments and agencies over which Congress has little or no control. Other members, who opposed the legislation, contended that it would not provide the control needed by Congress, since contract authority would have to be substituted for the fund carried over each year, and the Congress would be in the same predicament as before.<sup>20</sup>

In the Senate, S. 434, introduced on January 9, 1957, by Senator Kennedy, for himself and 49 other members of the Senate, was reported favorably after hearings during April 1957 and passed the Senate on June 5 of the same year.

The House Committee on Government Operations held extensive hearings in March and April 1957 on 14 bills which provided for improving Federal budgeting and appropriations processes. Nine of these bills related to accrued-expenditure basis of stating appropriations and the five remaining bills to other budget and accounting matters. Following these hearings, the committee reported a new bill, H. R. 8002 . . ., introduced by Representative Rogers of Florida on June 17, 1957, which contained substantially the same provisions as S. 434. In its report, the committee commented on the views expressed by Members of the House Appropriations Committee as follows:

"The committee gave intensive study and consideration, as always, to the views of the Committee on Appropriations as contained in a joint letter from Chairman Cannon and the ranking minority leader, John Taber, and as so ably presented at the hearings by Congressman Mahon, the chairman of the subcommittee Defense Department. We recognize the great service they are rendering to the Congress and the country by their meticulous scrutiny and analysis of all appropriation proposals. We agree with Mr. Mahon that there is no magic in the accrued-expenditures method. But the committee is convinced that the present dimensions of the Federal budget demand whatever improvements can be made in its process. We believe such a substantial improvement will be brought about to justify the passage of this legislation."<sup>21</sup>

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<sup>20</sup> Ibid., pp. 98-99.

<sup>21</sup> Ibid., p. 102.





Action on the floor of the House did not begin until March 4, 1958, when Representative Wigglesworth introduced an amendment which eliminated all of the language after the enabling clause and substituted new language.<sup>22</sup> The Wigglesworth amendment was a compromise that had been "worked out seemingly to the satisfaction of all groups concerned except some of those who are on the Committee on Appropriations."<sup>23</sup>

The main reasons for substituting the Wigglesworth amendment were given by Representative O'Neill as:

. . . there were some criticisms made, some doubt expressed by some of the suppliers of Government goods, by some of the contractors especially in the defense industry, and perhaps I should say especially in the aircraft industry, that this bill as originally reported from our committee would interfere with the obligational authority for long-term contracts. So an attempt was made to work out legislation that would obviate any criticism, and make it such that it could not be criticized, and meet the objections raised to the measure as we had reported it.<sup>24</sup>

No hearings had been held by the House on the language contained in the Wigglesworth amendment. It was fundamentally different from previous approaches to the accrued expenditure principle, and also the bill (S. 434) passed by the Senate almost a year earlier, in that appropriation procedure would remain essentially the same, but with an accrued expenditure limitation placed on the ensuing fiscal year. In the Senate bill, the appropriation, in effect, would have constituted the

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<sup>22</sup>U. S., Congressional Record, 85th Cong., 2d Sess., 1958, CIV, Part 3, 3421.

<sup>23</sup>Ibid., p. 3448.

<sup>24</sup>Ibid., p. 3447.





accrued expenditure limitation, on top of which there would have been added contract authority for long lead-time items. Other differences, and their effects in implementation of the accrued expenditure method, are discussed in later sections.

### Final Passage

The Wigglesworth amendment was debated for two days and adopted by the House on March 6, 1958, as a substitute for the original provisions of H. R. 8002. The amended bill was placed on the Senate Calendar, and . . . referred to the Senate Committee on Appropriations for further study. Following hearings on July 8, 1958, H. R. 8002 was reported favorably to the Senate.<sup>25</sup>

In its report, the Senate Committee on Appropriations included the following comments:

The present method of granting obligational authority would remain the same. The adoption of this system of accrued-expenditure limitations would require an expenditures accounting system in moderate addition to the present accounting system for controlling obligational authority which would be negligible significance as compared to the tighter congressional budgetary control.

It is the view of the committee that it is essential that the Secretary of Defense be given authority to transfer the unused portions of the limitations on annual accrued expenditures. Not to provide such authority could seriously endanger the defense program.

If limitations on annual accrued expenditures were imposed it would be just as necessary, if not more so, that the Secretary of Defense have a wide degree of flexibility to transfer, from one limitation to the other, unused portions of the limitations. Therefore, the committee recommends amendments to the bill to

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<sup>25</sup> Senate Committee on Government Operations, Financial Management, p. 102.





provide the necessary authority for such transfers.

· · · · · The House bill provides that it would be in order to include in appropriation bills language relating to availability of appropriations of funds previously made. Thus it would be in order to include language to transfer, rescind, or reappropriate funds previously appropriated or to amend limitations in a previous act in an appropriation bill. Such a provision would operate to amend the Senate rules in that the proposed language would no longer be subjected to a point of order and, therefore, a simple majority rather than a two-thirds vote would be required to consummate the proposal. The committee recommends the deletion of this provision.<sup>26</sup>

On July 31, 1958, H. R. 8002 passed the Senate, with amendments pertaining to the above comments included. On August 14, 1958, the House agreed to the Senate amendments and the bill was approved by the President on August 25, 1958, as Public Law 85-759 (72 Stat. 852), in effect, amending section 201 of the Budget and Accounting Act of 1921 to authorize the application of the accrued expenditure system to all appropriations and fund accounts when the President determines that there has been established an adequate system of accrual accounting.<sup>27</sup> The limitation on annual accrued expenditures proposed by the President would not be effective unless the Congress chose to include the limitation in an appropriation bill for the agency concerned.<sup>28</sup> Additional provisions of the enacted legislation, and its implementation, are discussed in later sections.

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<sup>26</sup>U. S., Congress, Senate, Committee on Appropriations, Providing for Improved Methods of Stating Budget Estimates, 85th Cong., 2d Sess., 1958, S. Rept. 1866 to accompany H. R. 8002, pp. 1-3.

<sup>27</sup>Senate Committee on Government Operations, Financial Management, p. 105.

<sup>28</sup>Ibid.



The provisions of Public Law 85-759 expire on April 1, 1962. During this period the annual accrued expenditure system is on trial and the manner in which it operates will have a substantial bearing on whether this legislation will be extended.<sup>29</sup> As is shown later, the system has not yet been placed into use for even one appropriation; the future of the accrued expenditure method is dim indeed.

On explanation given for Congress' inclusion of the April 1, 1962 expiration date was:

. . . in order to give the incoming President, regardless of who he may be, the opportunity to acquaint himself with that system. Remember, the incoming President will be seated on January 20 of 1961 which would be after the budget was submitted for the coming fiscal year. So that gives him a year in which to prepare a new budget and to decide for himself what he wants to do about the situation and what Congress wants to do about the situation.<sup>30</sup>

Regardless of the fact that the President who was inaugurated in January 1961, John F. Kennedy, was responsible for introduction of S. 434 in the Senate, and is reported to possess superior understanding of Government budgeting and accounting procedures, it would appear that the April 1, 1962 expiration date of Public Law 85-759 is to arrive too soon to provide sufficient opportunity for practical evaluation. This is especially true in view of the unsuccessful attempts so far in getting the House Committee on Appropriations to retain language on annual accrued expenditure limitations in several appropriation bills.

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<sup>29</sup>Ibid., p. 106.

<sup>30</sup>Cong. Rec., CIV, Part 3, 3448.





Provisions of the Law

Public Law 85-759 amended section 201 of the Budget and Accounting Act of 1921 to authorize the application of the accrued expenditure system to all agency appropriations and fund accounts when the President determines that there has been established within the agency an adequate system of accrual accounting.<sup>31</sup> This stipulation was necessary because an agency "couldn't go overnight to an accrued expenditure budget without first laying the accounting and factual groundwork for it."<sup>32</sup> In other words, "in order for an agency to be able to estimate its accrued expenditures for a fiscal period, it should have had experience in accounting on such a basis for a reasonable period in advance of undertaking such a budget plan."<sup>33</sup>

After such determination, the President was authorized to transmit to Congress a proposed limitation on annual accrued expenditures for each appropriation or fund and may include in his budget recommendations for authorizing the head of any department or establishment to make transfers within his department or establishment between such limitations. The limitation on annual accrued expenditures proposed by the President would not be effective unless the Congress chose to include the limitation in an appropriation bill for the agency concerned.<sup>34</sup>

Although it was interpreted by many, including former Senator Kennedy, that passage of the bill "would imply that the

<sup>31</sup>Senate Committee on Government Operations, Financial Management, p. 105.

<sup>32</sup>U. S., Congress, House, Subcommittee of the Committee on Government Operations, Hearings, Bills to Improve Governmental Budgeting and Accounting Methods, 84th Cong., 2d Sess., 1956, p. 100.

<sup>33</sup>Ibid., p. 177.

<sup>34</sup>Senate Committee on Government Operations, Financial Management, p. 105.





Congress will take action on the appropriations on the same basis,"<sup>35</sup> such was not the case, as is shown in the next chapter.

Although the present method of granting obligational authority would remain the same, the adoption of this system of accrued expenditures "would require an expenditures accounting system in moderate addition to the present accounting system for controlling obligational authority which would be of negligible significance as compared to the tighter congressional budgetary control."<sup>36</sup>

The original Senate version, S. 434, was claimed to "incorporate a vastly simpler system of budget estimates. It is uncomplicated by limitations on expenditures and other devices which would have to be included in the agency accounting system to keep track of these limitations."<sup>37</sup>

The limitation on annual accrued expenditures was required to be charged with the cost of goods and services received, advance payments made, progress payments becoming due, and any other liabilities becoming payable during the year. The unused balance of such limitation would lapse at the end of the year and any obligations incurred during the year or prior years which do not become payable would be charged to a succeeding year limitation in which the obligation becomes

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<sup>35</sup>U. S., Congress, Senate, Subcommittee on Reorganization of the Committee on Government Operations, Hearing, Bills to Provide for Improved Methods of Stating Budget Estimates, 85th Cong., 1st Sess., 1957, p. 16.

<sup>36</sup>Senate Committee on Appropriations, Rept. 1866, 1958, p. 1.

<sup>37</sup>Senate Committee on Appropriations, To Provide for Improved . . . , Hearings, 1958, p. 92.



payable.

Since the method of granting obligational authority remains the same, it follows that the granting of contract authority is not involved, as it would have been under the S. 434 and earlier versions.

Although the accrued expenditure method as enacted "did not eliminate the carryover of appropriation balances, it does allow Congress to control their use by determining, through the limitation on annual accrued expenditures, the value of goods and services which could be received each year."<sup>38</sup>

In addition to the procedure for appropriation bills as provided for by Public Law 85-759, there are the following other means of authorizing expenditures from the Treasury which would not be covered:

For example: (1) Authorizations to expend from public debt receipts; (2) contract authorizations; (3) revolving and management funds; and (4) permanent appropriations.

For the fiscal year 1959, these authorizations [comprised] approximately \$10 billion out of the \$72.4 billion in new obligational authority requested by the President, or approximately 14 percent. There would be no expenditure limitations on these items under [the law as enacted]. The question is whether there is any effective way to place such expenditures under complete control.<sup>39</sup>

It is an important distinction that under the procedure which was enacted no lapsing of appropriations would be involved. Only the unused balance of the limitation on annual accrued expenditures would lapse, and obligations becoming payable later

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<sup>38</sup>Senate Committee on Government Operations, Financial Management, p. 105.

<sup>39</sup>Senate Committee on Appropriations, To Provide for Improved . . . , Hearings, 1958, p. 85.





would have to be charged against the limitation for the year in which they become payable. For this reason, the enacted version was more acceptable to many of the producers of military goods, particularly in the aircraft industry, than was the Senate version, S. 434, which generally was opposed by this group.<sup>40</sup>

Did the Law Accomplish the Objectives of  
the Hoover Commission?

It has been shown that the final version as enacted, based upon the Wigglesworth amendment which was substituted for the entire bill, was a compromise which had not had benefit of hearings in the House to evaluate its merits, but was designed to satisfy all groups concerned, except possibly the House Committee on Appropriations which was opposed to the principle itself.<sup>41</sup>

Opinion as to whether the law achieved the objectives of the Hoover Commission varies from the affirmative, sometimes with reservation that such opinion pertains only to one or more of the several objectives, through evaluation as a compromise or modification, to the assertion by the House Committee on Appropriations that "the law that was finally enacted was as different from the original concept as day is from night."<sup>42</sup>

<sup>40</sup>Business Week, March 15, 1958, p. 85.

<sup>41</sup>Supra, p. 63.

<sup>42</sup>U. S., Congress, House, Committee on Appropriations, Treasury and Post Office Departments, and the Tax Court of the United States Appropriations Bill, 1960, 86th Cong., 1st Sess., 1959, H. Rept. 227 to accompany H. R. 5805, p. 10.





The original concept and bill would have made a fundamental change in the method of stating budget estimates and making appropriations. The enacted version does not; it provides merely for the superimposition of an accrued expenditure limitation on an appropriation made on the traditional basis.

The original concept was advanced as a method of enabling Congress to exercise closer control over spending. Yet the enacted version not only does not provide for changing present methods of making appropriations but actually provides for granting the department head authority, in the words of the law itself, "to make transfers, within his department or establishment, between such limitation on annual accrued expenditures." Where is the closer control of spending by the Congress when such transfer authority is granted? . . .

The original concept and bill contemplated tremendous reductions in unexpended carryover balances of appropriations. The enacted version does not. Of course, it should be noted that even under the original version, there would have been offsetting increases in unexpended carryover balances because of the substitution of contract authority with no resultant change in overall unexpended carryover balances.<sup>43</sup>

The Acting Director, Bureau of the Budget, felt "that either one of these alternatives [H. R. 8002 or S. 434] would achieve the objectives of the Hoover Commission in terms of providing for the annual review of the unexpended and unobligated balances, and in providing Congress with more detailed information about changes in programs which do occur, as we all know, during the course of a budget year."<sup>44</sup>

It should be evident that the legislation did not change the existing appropriation process as proposed by the Hoover Commission but added to it instead the authority for imposing limits on the goods and services that could be received by

<sup>43</sup> Ibid., pp. 10-11.

<sup>44</sup> Senate Committee on Appropriations, To Provide for Improved . . . , Hearings, 1958, p. 103.





agencies in any one year. This was "expected to attain the control objectives of the Hoover Commission proposal."<sup>45</sup> If in fact "control" was the major category of objectives sought by the Hoover Commission, then there is no doubt that Congress would achieve such control of at least the expenditure rate.

As for other so-called objectives discussed in the previous chapter, the achievement by means of the enacted concept is not so clear. Certainly no carryover balances would be eliminated. Savings and economy, throughout the period of study and debate nebulous and controversial quantities, were generally agreed to be possible through improved financial management and accounting procedures, not as a direct result of implementation of the legislation. Administrative efficiency and a better understanding of the Government's financial operations, including that of the general public, are likewise dependent upon the mechanics of implementation, and are not likely to be achieved automatically.

#### The Control Problem in Implementation

The Coast Guard, when it was confronted with the request to include in its budget estimates for fiscal years 1960 and 1961 limitations on annual accrued expenditures, considered the question of controlling accrued expenditures during a given year.

. . . we must control both the obligations and the change in undelivered orders effected during the year. That is, to hold accrued expenditures down [if required], we must either reduce the amount of money obligated during the year or let our undelivered orders build up (defer delivery dates of ordered materials . . . or refuse

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<sup>45</sup>Senate Committee on Government Operations, Financial Management, p. 136.





to accept delivery . . . until a subsequent year.<sup>46</sup>

However, the first alternative method for slowing down the accrued expenditure rate

. . . generally means cutting back programs, an operationally undesirable and inefficient procedure. . . . Unobligated Operating Expense funds may not be carried over from year to year...they are lost to the Coast Guard. Hence, controlling accrued expenditures by reducing obligations is an unacceptable device.<sup>47</sup>

The second alternative method of controlling accrued expenditures within a year

. . . is by exercising control of the delivery of ordered material. That is, every effort must be made to insure that material "budgeted" for delivery in a specific year is actually delivered in that year. A speed-up or a delay in deliveries from one year to another will upset the estimated accrued expenditure limitation for one of those years. For this reason, means must be developed to control the actual receipt of procurements so that such receipts during a specific year are kept closely in line with the estimates for that year.<sup>48</sup>

#### Summary

From the foregoing it should be evident that the accrued expenditure limitation involves considerably more than obligating against an appropriation authorization and issuing a check or spending against that same appropriation when the obligation becomes payable, whether in the same fiscal year, or in a subsequent year. In simple terms, there is only one control involved in the latter method, whereas with the accrued

<sup>46</sup>Deputy Chief of Staff, U. S. Coast Guard, Memorandum to Chiefs, Offices and Division, 11 December 1959, p. 3.

<sup>47</sup>Ibid.

<sup>48</sup>Ibid., pp. 3-4.





expenditure limitation imposed there is the necessity, especially toward the close of a fiscal year, of maintaining effective control on total accrued expenditures for that year.

It would appear probable that the maintenance of the additional administrative control for accrued expenditures would prove, especially toward the end of the fiscal year, at least as difficult as the controls required for obligations against appropriations.



## CHAPTER IV

### RESULTS OF ATTEMPTS TO EFFECT LIMITATIONS WITHIN APPROPRIATIONS BILLS

The ranking minority member of the House Committee on Appropriations, Rep. John Taber, made the following statement during an early phase of congressional consideration of the accrued expenditure method: "If the Congress passes the bill providing that the budget should be submitted on an accrual basis, it is going to be impossible for the Appropriations Committee to do any other way, even though they would not be bound by that."<sup>1</sup> Although that statement, made at the time it was, referred specifically to a strict interpretation of the Hoover Commission recommended procedure for annual accrued expenditures, and not to the modified version which was eventually enacted, it is the purpose of this chapter to trace the developments relative to inclusion of limitations on annual accrued expenditures in the President's budget proposals to Congress, and the rejection of those limitations by the Committees on Appropriations.

During the process of Senate approval of the final

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<sup>1</sup>U. S., Congress, House, Subcommittee of the Committee on Government Operations, Hearings, Bills to Improve Governmental Budgeting and Accounting Methods, 84th Cong., 2d Sess., 1956, p. 204.





version, the Chairman of that body's Committee on Appropriations stated: "Whether or not there are substantial advantages to be gained by using the annual accrued expenditure system, I felt that the Congress should have the benefit of an actual experience upon which to make a permanent decision."<sup>2</sup> He also said:

I believe that the appropriations to the Department of Defense for military functions which remain available until expended are the logical ones to which the system should be applied for the trial period. These appropriations involve long lead-time procurement, research and development projects, and the construction of military facilities and installations, some of which require several years.<sup>3</sup>

Because the Department of Defense had not then (and still is in the process of effecting) a system of accrual accounting which could be approved by the President for the purposes of including in budget estimates such limitations on annual accrued expenditures, it was not possible to apply a trial experience upon the appropriations of that department.

#### Proposed Limitations in President's

##### Budget Submissions

The President submitted to the Congress the following six requests with accrued expenditure limitations in his 1960 budget:

Veterans Administration, construction of hospital and domiciliary facilities  
General Services Administration, repair and improvement of Federally-owned buildings

<sup>2</sup>U. S., Congress, Senate, Committee on Appropriations, Providing for Improved Methods of Stating Budget Estimates, 85th Cong., 2d Sess., 1958, S. Rept. 1866 to accompany H. R. 8002, pp. 6-7.

<sup>3</sup>Ibid., p. 7.





Army Civil functions--

Operating expenses, Canal Zone

Capital outlay, Canal Zone

Treasury, Coast Guard--

Operating expenses

Acquisition, construction and improvement<sup>4</sup>

The foregoing six items comprised only 0.41 percent of the total 1960 fiscal year budget request.<sup>5</sup>

The President was said to have selected "certain organizations which have good accounting systems on an accrual basis, and designated them to experiment to see whether or not the anticipated advantages will materialize."<sup>6</sup> The President's selections were effected through requests on the part of the Bureau of the Budget for designated agencies to include estimated limitations of annual accrued expenditures in their budget submissions.

In amount of dollars involved, the Coast Guard's two appropriations comprised by far the largest portion.<sup>7</sup>

The Chairman of the Treasury-Post Office Departments Appropriations Subcommittee in the House made the following statements during the hearings on the 1960 budget:

Then I was astonished when I got the budget to see that they had singled out six items involving four agencies that they [the Bureau of the Budget by order of the President] were going to use as guinea pigs during this session of the Congress. . . . I was amazed that two of those items were in the budget of the Coast Guard, which in my judgment is already operating as the most economical and efficient agency

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<sup>4</sup>U. S., Congress, House, Subcommittee on Treasury-Post Office Departments Appropriations of the Committee on Appropriations, Hearings, Treasury-Post Office Departments Appropriations for 1960, Treasury Department and Tax Court of the United States, 86th Cong., 1st Sess., 1959, p. 26.

<sup>5</sup>Ibid., p. 25.

<sup>6</sup>Ibid., p. 241.

<sup>7</sup>Ibid., p. 26.





of the Government.

If they are going to try to save by working on the Coast Guard, I do not think they are going to make much saving on a program of that kind.<sup>8</sup>

I see no reason for making the Coast Guard the guinea pig in this experiment. I think they are efficient; and when I asked the Budget Director why that was done he said that they were doing it because the Coast Guard was efficient and that their books were in such shape that they could apply this law in some measure.<sup>9</sup>

The Secretary of the Treasury testified in the appropriations hearings the following year, for fiscal year 1961, that the Coast Guard was the agency within the Treasury Department which was furthest advanced toward an established system of accrual accounting.<sup>10</sup>

In explaining to the subcommittee why the Coast Guard was designated to experiment with the new method, the Assistant Secretary of the Treasury, Fiscal testified:

If it is not practical for the Coast Guard, then I say it is not practical for the rest of the Government. If it is practical for the Coast Guard, there is no reason why the rest of the Government cannot adapt itself to it. If it costs the Coast Guard too much I do not see why we should saddle this heavy cost on the rest of the Government.<sup>11</sup>

I think in the Coast Guard organization it will be a

<sup>8</sup>Ibid., p. 500.

<sup>9</sup>Ibid., p. 25.

<sup>10</sup>U. S., Congress, House, Subcommittee on Treasury-Post Office Departments Appropriations of the Committee on Appropriations, Hearings, Treasury-Post Office Departments Appropriations for 1961, Treasury Department and Tax Court of the United States, 86th Cong., 2d Sess., 1960, p. 50.

<sup>11</sup>House Subcommittee on Treasury-Post Office Departments Appropriations, Hearings, 1959, p. 515.





fair test, it will be a competent test, and if it does not work, I think the Treasury will be the first one to say so.<sup>12</sup>

### Arriving at the Limitation

The limitations submitted in the 1960 Coast Guard budget which were placed on annual accrued expenditures for the two appropriations, Operating Expenses and Acquisition, Construction, and Improvement, were designed to provide that agency "all the flexibility they need and can have. Because it is experimental, we did want to penalize them . . . with a tight limitation."<sup>13</sup>

It was agreed by the Bureau of the Budget that a limitation set too close to the appropriations so that it would interfere with operations would be harmful, and, therefore, an ample safety (also called "contingency") factor was necessary. The figure agreed upon "was 10 percent, and . . . it was purely arbitrary."<sup>14</sup> That additional 10 percent factor was applied to each of the two Coast Guard appropriations involved.

The following year, for the 1961 budget, the limitation proposed for the Operating Expenses appropriation included only a 5 percent safety factor. For both appropriations, in 1960 as well as 1961, transfer provisions were proposed in the language.

Accordingly, a limitation equal to the estimated accrued expenditures for 1961 plus a 5 percent "safety" factor has been included in the OE appropriation language. A limitation equal to

<sup>12</sup>Ibid., p. 517.

<sup>13</sup>Ibid., p. 516.

<sup>14</sup>Ibid., p. 517.





the estimated accrued expenditures for 1961 plus a 10 percent "safety" factor has been included in the AC&I appropriation language. The AC&I language also permits us to transfer up to 5 percent of the AC&I accrued expenditure limitation to OE or 5 percent of the OE limitation to AC&I, if need be.<sup>15</sup>

For example, in the no-year appropriation request for Acquisition, Construction, and Improvement, for 1961, the Coast Guard's estimated expenditures, or actual disbursements, were \$27 million. The accrued expenditures in AC&I were estimated \$24.1 million. The accrued expenditure limitation was set 10 percent higher than the \$24.1 million; that is, \$26.5 million.<sup>16</sup>

The 10% contingency factor added to the AC&I estimated expenditures to arrive at the limitation figure appears to be both realistic and necessary. Although, because of the "annual" nature of the Operating Expenses appropriation, actual expenditures would coincide closely with accrued expenditures, this is not so in the AC&I fund. An incorrect estimate of accrued expenditures under AC&I, involving items of long lead-time procurement, at the time of formulating the budget within the agency, approximately the September before the commencement of the fiscal year, would tend to cause serious errors in subsequent years' limitations on annual accrued expenditures within that appropriation. The resulting "early deliveries" and "slippages" would have a "multiple effect," for several years

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<sup>15</sup>Deputy Chief of Staff, U. S. Coast Guard, Memorandum to Chiefs, Offices and Divisions, 11 December 1959, p. 1.

<sup>16</sup>House Subcommittee on Treasury-Post Office Departments Appropriations, Hearings, 1960, p. 570.



hence. Thus, there would be a definite need for some amount of leeway, or a "safety" factor, within which to permit either errors or occurrences beyond the agency's control to be absorbed.

### Establishment of Controls

It is only possible to discuss the tentative plans for setting up of controls to insure staying within the accrued expenditure limitations, because the limitations were eliminated in the Congress, and never were imposed.

A further enlargement of the existing accounting system was contemplated in the Coast Guard to provide specifically for control of accrued expenditures.

The "appropriation" limits us to a specific number of dollars which we are authorized to "obligate". Since the appropriation is a limitation on obligations, we have set up accounting controls to stay within these obligational limits. Now that we are faced with an accrued expenditure limitation, in addition to controls against over-obligation, we must set up further controls to insure that we do not accrue expenditures beyond the proposed limitation.<sup>17</sup>

It was estimated that 16 additional people would be necessary to establish and maintain the controls in the Coast Guard required to implement the accrued expenditure procedure, at a total cost of approximately \$60,000 per year.<sup>18</sup> The number of 16 was based on the need for one additional person at each of the Coast Guard accounting centers.<sup>19</sup>

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<sup>17</sup>Deputy Chief of Staff, USCG, Memorandum, p. 1.

<sup>18</sup>House Subcommittee on Treasury-Post Office Departments Appropriations, Hearings, 1960, p. 571.

<sup>19</sup>House Subcommittee on Treasury-Post Office Departments Appropriations, Hearings, 1959, p. 505.





The Assistant Secretary of the Treasury, Fiscal, stated that his department felt the cost for the Coast Guard for accounting for the limitations "will be nominal: probably fifty or one hundred thousand dollars. But if it runs to \$300,000 or \$400,000, this [the actual imposition of the limitations] will give us an opportunity to demonstrate it."<sup>20</sup> He implied that the amount of \$300,000, or higher, would be excessive, and not justified.

#### Justification of the Proposed Experiment

The Assistant Secretary also testified that the accrued expenditure procedure would not have much affect upon presenting the budget estimates "except that the agencies will have to make their plans for the subsequent year more precise and will not have as great leeway as they do now."<sup>21</sup>

He further elaborated:

The one big advantage if this is practicable Governmentwide, it will give a control both in the Congress and to the President in limiting the overall expenditures of this Government. . . .

At the moment I am planning and the Secretary [of the Treasury] will plan in the debt limit recommendation that he will bring up to Congress shortly, that in this year of 1960 there will be \$77 billion of Government expenditures and we will get a public debt limitation predicated on that fact.

But there is nothing in our present system today that will limit expenditures to \$77 billion if agencies decide they want to spend [liquidate obligations which become payable] more. If you have about \$70 billion or thereabouts of carryover and another \$70 billion of current appropriations you have a potential of \$140 billion that can be spent next year.

Under our past practice and custom we estimate that we will spend \$77 billion, but we could spend \$80 billion,

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<sup>20</sup> Ibid., p. 504.

<sup>21</sup> Ibid., p. 506.





\$85 billion, just as easily, if agencies decide to spend much more next year and not carry over as much to fiscal year 1961. But if you have a limitation on the amount that they can spend next year, which this [annual accrued expenditure] limitation places on that, then you have a control on this budget when the President says he estimates we will spend \$77 billion. Today you do not have that control.<sup>22</sup>

It should be fully understood that the above justification for placing limitations on annual accrued expenditures would be valid only if all Government agencies were included, otherwise planning the national debt limit would still be at best an estimate. It is also emphasized that the above statement is somewhat misleading in that, under Public Law 85-759, there are four specific types of spending authorizations upon which limitations could not be placed, and which, therefore, could not be effectively controlled for the purposes of accurately predicting the debt limit.<sup>23</sup> These authorizations comprised approximately \$10 billion of new obligational authority in fiscal year 1959.

Still, under limitations on annual accrued expenditures, agencies cannot spend more than the amount inserted as such. If the agencies "say they are going to carry over certain amounts to the following year, they will have to carry over that amount. They cannot change their minds and pay all that in this year."<sup>24</sup>

There were three particular objectives of including the Coast Guard under the limitation experiment, as outlined by

<sup>22</sup>Ibid., p. 501.

<sup>23</sup>Supra, p. 69.

<sup>24</sup>House Subcommittee on Treasury-Post Office Departments Appropriations, Hearings, 1959, p. 501.



the Assistant Secretary. The first objective was to eliminate any argument "as to who thinks one thing or another. The Coast Guard has the competence to demonstrate whether it is practicable or not."<sup>25</sup> It has been shown that the accrued expenditure concept had been accompanied almost from its inception with a great amount of controversy.

The second objective that it was anticipated the Coast Guard could show was that "the cost of this new procedure will be nominal. The Coast Guard after a year of operation can tell us whether it is a nominal cost or whether it is going to impose a great deal of additional cost on this agency."<sup>26</sup>

Thirdly, and last, as an objective, was the hope that "it will enable them to plan their projects and their activities in a much better fashion. If that is not true then we [Treasury] can knock that [the limitations] out."<sup>27</sup> Relative to this last objective, the Commandant of the Coast Guard testified: "As far as the efficiency of operation of the Coast Guard, we can foresee at this point no improvements from it."<sup>28</sup>

#### Elimination by the Appropriations Committee

In the hearings on the 1960 budget, the Chairman of the Subcommittee on Treasury-Post Office Departments Appropriations set the tone for the ultimate rejection and elimination of the annual accrued expenditures limitations from the appropriations'

<sup>25</sup>Ibid., p. 500.

<sup>26</sup>Ibid.

<sup>27</sup>Ibid., p. 501.

<sup>28</sup>House Subcommittee on Treasury-Post Office Departments Appropriations, Hearings, 1960, p. 570.





language when he stated: "The original bill in my judgment would have cost us a great deal of money. The bill as it passed [P. L. 85-759] . . . I do not think will cost us any money unless we go into some foolish operations with it."<sup>29</sup>

In reporting the 1960 appropriations bills, the House Committee on Appropriations did not include any of the six annual accrued expenditure limitations recommended by the President. Several reasons were given in the report, including the following:

The original concept and bill mandatorily would have required use of the accrued expenditure technique in appropriation bills. The enacted version and the floor debate make it abundantly clear that its use in appropriation bills is discretionary. In the case of the Coast Guard, the testimony is conclusive that--

1. Changes would have to be made in accounting, reporting, and related procedures;
2. There would be added personnel and redtape with resulting increased costs and no returns in operating efficiency or economy.

Therefore, no useful purpose whatever was given the committee to justify inclusion of the limitations in the bill.<sup>30</sup>

In referring specifically to the six appropriations for which the limitations were recommended, the committee said:

"That same budget proposes that total appropriations in the six instances be increased in the net amount of \$5 million plus and that expenditures be increased in the net amount of \$16 million plus over the current year."<sup>31</sup>

<sup>29</sup>House Subcommittee on Treasury-Post Office Departments Appropriations, Hearings, 1959, p. 499.

<sup>30</sup>U. S., Congress, House, Committee on Appropriations, Treasury and Post Office Departments, and the Tax Court of the United States Appropriations Bill, 1960, 86th Cong., 1st Sess., 1959, H. Rept. 227 to accompany H. R. 5805, p. 11.

<sup>31</sup>Ibid., p. 12.





The committee's opinion was that "the facts are conclusive that this proposition is an absurdity and would not save any money. . . ."32

However, the Senate Committee on Appropriations restored one of the Coast Guard limitations, on Acquisition, Construction, and Improvement, and that appropriation was so passed by the Senate. The Senate committee's report included the following statements:

It is the sense of this committee that the application of an annual accrued expenditure limitation to this annual appropriation [Operating Expenses, Coast Guard] is neither desirable nor advantageous and therefore, concurs with the House in deleting the proviso.<sup>33</sup>

Appropriations under this head [Acquisition, Construction, and Improvement, Coast Guard] are authorized to remain available until expended and therefore the committee recommends application of an annual accrued expenditure limitation of \$20 million to this account to determine any possible advantages or disadvantages.<sup>34</sup>

It is apparent that the Senate wished to provide at least a token experimentation of the accrued expenditure method. However, its wishes were nullified when that body receded from its amendment described above, in conference, at the insistence of the House Members.<sup>35</sup> Thus, no provisions for limitations on

<sup>32</sup>Ibid.

<sup>33</sup>U. S., Congress, Senate, Committee on Appropriations, Treasury and Post Office Departments and Tax Court of the United States Appropriation Bill, Fiscal Year 1960, 86th Cong., 1st Sess., 1959, S. Rept. 305 to accompany H. R. 5805, p. 6.

<sup>34</sup>Ibid., p. 7.

<sup>35</sup>U. S., Congress, Committee of Conference, Treasury and Post Office Departments and Tax Court of the United States Appropriations Bill, 1960, 86th Cong., 1st Sess., 1959, H. Rept. 425 to accompany H. R. 5805, p. 1.





any appropriations were included in the 1960 authorizations.

The President again, in his 1961 budget, recommended that Congress place accrued expenditure limitations on 12 appropriations, exactly twice the number recommended the previous year. The Coast Guard OE and AC&I appropriations were again included. Although the hearings again devoted considerable discussion to the accrued expenditure procedure, none of the 12 limitations recommended in the budget were approved by the House Appropriations Committee. In its report, the committee gave no mention of, or reasons for, not including the recommended limitations in the applicable appropriation bills.<sup>36</sup>

#### The 1962 Budget

In submitting the 1962 fiscal year budget, neither the Coast Guard nor any other agencies were requested by the Bureau of the Budget to include estimated limitations on annual accrued expenditures. Thus, the "outlook for this feature of budgetary reform is dim indeed."<sup>37</sup> Since the law which authorized the use of the accrued expenditure principle expires April 1, 1962, it is a certainty that by then there will have been no appropriation to which the principle will have been applied for at least one fiscal year.

It is noted that the most recent annual report of the Joint Financial Management Improvement Program, while not

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<sup>36</sup>U. S., Congress, House, Committee on Appropriations, Treasury and Post Office Departments, and the Tax Court of the United States Appropriations Bill, 1961, 86th Cong., 2d Sess., 1960, H. Rept. 1281 to accompany H. R. 10569.

<sup>37</sup>Maurice H. Stans, "Current Improvements in Federal Budgeting," The Journal of Accountancy, May, 1959, p. 29.





referring to the annual accrued expenditure method in a list of the program's basic objectives, did include the following:

4. Establishment of cost-based budgeting practices effectively integrated with the accounts to provide adequate support for budget requests.

6. The use of consistent classifications to bring about effective coordination of agency programming, budgeting, accounting, and reporting practices.

8. Effective integration of agency accounting and reporting with the requirements of the budget process and the central accounting and reporting of the Treasury Department.

9. Development of accurate and useful agency and Government-wide reports on fiscal status, financial results of operations, and cost of agency performance of assigned functions.<sup>38</sup>

### Summary

Although the road towards implementation of the accrued expenditure principle appears at this point to be effectively blocked, it seems reasonable to assume that a concept to which was attached such a considerable, if not overwhelming, amount of support, however emotional that support might have been, will not be so soon abandoned.

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<sup>38</sup>U. S., Secretary of the Treasury, Director, Bureau of the Budget, and Comptroller General of the United States, Annual Report, Fiscal Year 1960, The Joint Financial Management Improvement Program (Washington: U. S. Government Printing Office, 1960), p. 18.





## CHAPTER V

### CONCLUSIONS AND SUMMARY

In earlier chapters, we have seen the development of the accrued expenditure method, attempted to evaluate the advantages and disadvantages, traced the enactment of legislation providing for limitations on annual accrued expenditures, discussed means of implementation, and followed the actual attempts toward consummation of the procedure in budgeting and appropriating.

It is the purpose of this chapter to investigate the other possible means of obtaining the only clear advantage which the accrued expenditure method supposedly would accomplish, namely, improved facilities for review of executive agencies' budget submissions for appropriation action by the Congress. The future prospects of the accrued expenditure method are also discussed insofar as they can be determined.

#### The Need for Better Review

If the Congress holds the "power of the purse," then it must pass on appropriations as a natural exercise of that power. If the Congress is to control spending (expenditures, disbursements), as well as pass on appropriations, then it must, as Wallace says, "concern itself with details which affect



substantive policies."<sup>1</sup>

But, Congress does not now have available to its Appropriations Committees a sufficient quantity of these details. It doesn't "have access to nearly as much analytical data about the budget as does the Executive. Although there is probably a point beyond which additional information does not help to predict consequences of action, Congress has not yet reached that point."<sup>2</sup>

Smithies says: "As a rule, the main source of information about Executive performance is the appropriation justifications. . . . In all cases the primary objective of the department is to justify its budget requests rather than to provide a basis for a critical review of its performance."<sup>3</sup>

Members of Congress need detailed information and analyses, Wallace says,

. . . to propose reductions [in appropriations] based on factual materials. Past experience has shown that he [Member of Congress] will not simply give up his attempts to cut spending in absence of detailed information. He seeks his only possible means of achieving reductions--either blind cuts, or arbitrary restrictions which destroy administrative flexibility.<sup>4</sup>

Although the imposition of limitations on annual accrued expenditures may not clearly be an "arbitrary restriction," the

<sup>1</sup>Robert Ash Wallace, Congressional Control of Federal Spending (Detroit: Wayne State University Press, 1960), p. 14.

<sup>2</sup>Ibid., p. 5.

<sup>3</sup>Arthur Smithies, The Budgetary Process in the United States (New York: McGraw-Hill Book Co., 1955), p. 158.

<sup>4</sup>Wallace, Congressional Control . . . , p. 12.





method does fall into the category of a restriction on administrative flexibility. It must be assumed that the Congress enacted accrued expenditure legislation in an effort to provide means of reducing spending when such action is deemed necessary. But the question, then, is, will other means of providing a detailed and analytical review also tend to eliminate "blind cuts" and "arbitrary restrictions?"

At present, although the executive budgets are formulated and justified by thousands of different agency budget officers, and then examined and coordinated by some 170 people in the Bureau of the Budget, "this massive effort must be compared with twenty or thirty staff members of an Appropriation Committee who are fortunate if they can keep up even with the mechanics of the bills, arranging hearings, drafting reports, and compiling comparative figures."<sup>5</sup>

According to Smithies, "the budget should be comprehensible enough to be considered in the Congress by the whole Appropriations Committee of the House as well as by the specialized subcommittees. At present, it is so complicated that only the small specialized groups can hope to understand their respective parts of it."<sup>6</sup>

The appropriation hearings, particularly in the House, are, of course, largely concerned with what the departments are doing and have done as well as with what they propose to do. It is this very intermingling of the present, the past, and the future that helps to produce complexity and, to a large extent, the futility of the appropriations hearings; and the subcommittees do not get to the heart of the question of economy and

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<sup>5</sup>Ibid., p. 173.

<sup>6</sup>Smithies, The Budgetary Process . . ., p. 169.





efficiency by these methods. At the same time the need to survey actual performance in conjunction with the estimates for the future is one of the reasons why the appropriations process is so inadequate from the viewpoint of program consideration.<sup>7</sup>

Even the subcommittee members of the Appropriations Committees have to depend upon the staff experts to "guide them through the maze of legislative language."<sup>8</sup>

"The committees are more or less at the mercy of the departments," [Senator Allen] Ellender says. "They can send in their justifications, and we can take them and read them. It takes me a week to read the agriculture bill alone. I don't have that much time. And the committee doesn't have enough investigators to to behind all the requests and see whether they are really needed."<sup>9</sup>

How, then, can the content and format of the Executive budget be adapted to assist the Congress in its difficult task of review? Wallace maintains that Congress needs objective expenditures analyses to help it form an independent judgment on appropriations matters.<sup>10</sup> Smithies says Congress "must have cost information of a more significant kind than an agglomeration of detail. The review process can yield information on the actual cost of execution of programs. . . ."<sup>11</sup> Such information is contained within the cost-based budget.

<sup>7</sup> Ibid., pp. 153-54.

<sup>8</sup> "How Purse Strings Are Controlled," Business Week, February 9, 1957, p. 142.

<sup>9</sup> Ibid.

<sup>10</sup> Wallace, Congressional Control . . ., p. 172.

<sup>11</sup> Smithies, The Budgetary Process . . ., p. 188.



The Cost-Based Budget

The cost-based budget, in conjunction with accrual accounting, was enacted as an objective for government budgeting and accounting by Public Law 84-863.<sup>12</sup> It is not the purpose of this paper to explore in any detail the cost budgeting concept. The following discussion merely attempts to show that the review benefits and advantages attributed to the accrued expenditure procedure can likewise be obtained from implementation of the cost-based budget, without necessarily resorting to the restrictions on executive flexibility imposed by limitations on annual accrued expenditures.

The following analysis of budget review points out the cost-based budget technique:

It seems reasonable to conclude that the best basic approach to a review of the budget is one which provides for (1) consideration of a proposed work plan or program to be accomplished, (2) what was accomplished in preceding periods and (3) costs for both in terms of total resources consumed. With this point of departure the budget can then be assessed in terms of (a) costs to be incurred, (b) resources already available in terms of inventories, etc., plus carried-over funds, and (c) new money or authority needed.<sup>13</sup>

Although complete implementation of presentation of budgets on a cost-basis will take several more years, approximately two-thirds of the appropriation items in the fiscal year

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<sup>12</sup>Supra, Chap. III.

<sup>13</sup>U. S., Congress, House, Subcommittee of the Committee on Government Operations, Hearings, Bills to Improve Governmental Budgeting and Accounting Methods, 84th Cong., 2d Sess., 1956, p. 215.





1962 budget were prepared in such a manner.<sup>14</sup>

It is emphasized that the use of the accrued expenditure base of appropriating is not essential to the use of accrual accounting and cost-based budgeting. In fact, as has been shown before, the obligation base of appropriating was retained when legislation which enacted the accrued expenditure method was eventually passed (P. L. 85-759). This was not entirely in accordance with the Second Hoover Commission's recommendation, which contemplated that the appropriating base be changed to conform to accrued expenditure principle.

In other words, it would be entirely practicable to employ cost-based budgeting techniques under both the obligation and accrued expenditures bases of appropriating, and still reap the benefits of the cost budget approach.

The Assistant Secretary of Defense (Comptroller), while agreeing that it has been true in the past that inadequate attention has been paid to costs, stated that "it is possible to budget for both obligations and costs within the present basis of appropriations in terms of obligational authority."<sup>15</sup>

A principal advantage of budgeting on a cost basis "is that management and the Congress are able to review the total resources on hand, on order, and to be procured rather

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<sup>14</sup>U. S., Secretary of the Treasury, Director, Bureau of the Budget, and Comptroller General of the United States, Annual Report, Fiscal Year 1960, The Joint Financial Management Improvement Program (Washington: U. S. Government Printing Office, 1960), p. 6.

<sup>15</sup>House Committee on Government Operations, Bills to Improve . . . , Hearings, 1956, p. 148.





than limiting the budget review process to new money in the form of obligational authority."<sup>16</sup> The cost-type budget "shows the obligating authority required to place orders for additional goods and services needed to accomplish the planned program and maintain the resources on hand at a level appropriate to the agency's operating requirements."<sup>17</sup>

When inventories and long lead-time programs are involved, the cost-based budget provides "its greatest benefit because of the identification of carryovers of available resources from one year to another."<sup>18</sup> This type of budget is derived from the accrual basis of accounting, which identifies the carryover of resources in relation to the time period involved. "In all cases, accounting on an accrual and cost basis must be integrated with such other accounting records as are needed to provide for control and information on obligations and to provide for information on disbursements."<sup>19</sup>

The Assistant to the Comptroller General stated that, even though it may not be possible to estimate exactly what long lead-time procurement items will eventually cost, from the drawing board presentation, it is at the point where the item is approximately one year from being delivered "that the cost based budget will give both the management and the Congress

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<sup>16</sup>U. S., Congress, Senate, Committee on Government Operations, Financial Management in the Federal Government, 86th Cong., 2d Sess., 1960 (Washington: U. S. Government Printing Office, 1961), p. 95.

<sup>17</sup>Ibid., p. 96.

<sup>18</sup>Ibid.

<sup>19</sup>Ibid., p. 97.



a great deal of information."<sup>20</sup> Thus, this information would be extremely useful for Congress in its review function which precedes budget authorization.

#### The Future for the Accrued Expenditure Method

Because there were no limitations on annual accrued expenditures submitted in the 1962 President's budget, and the legislation authorizing submissions under this procedure will expire on April 1, 1962, it is reasonable to assume that, unless some positive action is undertaken during calendar year 1961, towards implementation of the principle, that it probably will lapse according to schedule.

At the date of this writing, there is no official intention on the part of the Director, Bureau of the Budget, to request any proposed limitations to be submitted within the 1963 budget.<sup>21</sup> Neither is there any proposed or pending legislation to provide for renewal or extension of Public Law 85-759 so that it would not lapse on April 1, 1962.<sup>22</sup>

At the very most, one can only speculate that President Kennedy, an active sponsor of the accrued expenditure method

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<sup>20</sup>House Committee on Government Operations, Bills to Improve . . . , Hearings, 1956, p. 53.

<sup>21</sup>Interview with Harry T. Quirk and James E. Scott, Examiners, Bureau of the Budget, April 6, 1961.

<sup>22</sup>Telephone conversation with Elmer W. Henderson, Counsel, Subcommittee on Executive and Legislative Reorganization of the Committee on Government Operations, U. S. House of Representatives, April 5, 1961.





while a Member of the Senate, might seek to renew attempts to implement the accrued expenditure procedure for experimental purposes. To date, there has been nothing to indicate this might be so.

### Summary

After an extremely controversial and lengthy road to eventual enactment into law, it appears the annual accrued expenditure principle will, on April 1, 1962, cease to be authorized, and lapse into solitude, never having been completely tested as a part of the Federal government budget and appropriating structure.

However futile the attempts toward ultimate implementation of the concept might have been, they might not have been wasted effort, because of the attention the controversy surrounding the accrued expenditure method focused on the accounting, budgeting, and appropriating systems.

Although, unless the method is ever put into use, it will not be known which of its claimed advantages were, in effect, valid, it seems reasonable to assume that the only benefit which the method would have provided without some coincident disadvantages would have been better review of the budget proposals by the Congress as a part of the budget authorization process. It is likely that this review advantage will ultimately be as well achieved by complete change to the cost-based budget.

Whether or not the method is left to "die" or is ever again considered for enactment into legislation would seem to





depend upon the success achieved by the Congress in obtaining the information it requires for a satisfactory review of executive spending by means of a complete and effective system of accrual accounting and cost-based budgeting.



## APPENDIX A

### PUBLIC LAW 759, 85TH CONGRESS

Public Law 85-759 (72 Stat. 852, 853), approved August 25, 1958, added the following subsections to Title II--  
The Budget of the Budget and Accounting Act of 1921 (42 Stat. 20):

Sec. 201. (b) Whenever the President determines there has been established a satisfactory system of accrual accounting for an appropriation or fund account, each proposed appropriation thereafter transmitted to the Congress for such account pursuant to the provisions of this Act shall be accompanied by a proposed limitation on annual accrued expenditures. The President may include in the Budget with any such proposed limitation on annual accrued expenditures, proposals for provisions authorizing the head of a department or establishment to make transfers, within his department or establishment, between such limitations on annual accrued expenditures; and such provisions may limit by amount or by per centum the size of any transfers so proposed.

(c) Whenever an appropriation is subject to a limitation on annual accrued expenditures, there shall be charged against the limitation the cost of goods and services and other assets received, advance payments made and progress payments becoming due, and the amount of any other liabilities becoming payable, during the fiscal year concerned.

(d) At the end of the fiscal year concerned, any unused balance of the limitation on annual accrued expenditures shall lapse, except that whenever any liabilities are incurred within the limitation provided for in any fiscal year (whether or not recorded or reported in such fiscal year), nothing in this section shall be construed to prevent the making of payment therefor in any subsequent fiscal year.

(e) Any obligations incurred during the fiscal year concerned or in prior fiscal years which do not result in liabilities becoming payable during the fiscal year concerned shall be charged against the limitation on annual accrued expenditures for any succeeding fiscal year in which such obligations may result in liabilities becoming payable.

(f) Nothing in subsections (b) through (e) of this section shall be construed to change existing law with respect to the method or manner of making appropriations or the incurring of obligations under appropriations.





Public Law 85-759 further provides:

Sec. 2. (a) It shall be in order to provide in any bill or joint resolution making appropriations, or in any amendment thereto, limitations on annual accrued expenditures covering amounts becoming payable as a result of obligations incurred both in the fiscal year concerned and in prior fiscal years, and to include in any such bill or joint resolution provisions authorizing the head of a department or establishment to make transfers, within his department or establishment, between such limitations on annual accrued expenditures; and such provisions may limit by amount or by per centum the size of any transfer so provided for.

(b) The provisions of subsection (a) of this section are enacted by the Congress--

(1) as an exercise of the rulemaking power of the Senate and the House of Representatives, respectively, and as such they shall be considered as part of the rules of each House, respectively, or of that House to which they specifically apply; and such rules shall supersede other rules only to the extent that they are inconsistent therewith; and

(2) with full recognition of the Constitutional right of either House to change rules (so far as relating to the procedure in such House) at any time, in the same manner and to the same extent as in the case of any other rule of such House.

Sec. 3. This Act, and the amendments made thereby shall cease to be in effect April 1, 1962.





## APPENDIX B

### MATHEMATICAL DETERMINATION OF WHAT CONSTITUTES ANNUAL ACCRUED EXPENDITURES

The following was taken from Deputy Chief of Staff,  
U. S. Coast Guard Memorandum to Chiefs, Offices and Divisions  
of 11 December 1959, FB L1-1:

4. "Accrued expenditures" may be defined as the value of goods and services received in a fiscal period (whether or not payment has been made) plus advance payments for goods and services to be delivered in a future period. To relate this definition to "obligation", let us consider what happens when we obligate money for an inventory purchase. When the purchase order is written, the obligation is recorded as an "undelivered order". When the material is received, the obligation changes from an "undelivered order" to an "inventory asset" as the item is placed "on the shelf". When the inventory item is issued for use, the obligation again changes; this time it is listed as a "cost". Thus an obligation may be either an "undelivered order", an "inventory asset", or a "cost". In some cases, such as when orders are placed with the [Coast Guard] Yard or progress payments are made to contractors, funds are paid in advance of the receipt of goods or services. This, of course, also requires an obligation of funds, but in these cases, the obligation is recorded as an "advance". There is still one other way in which an obligation may be recorded... "work-in-process". "Work-in-process" represents the value of labor, materials and overhead that is invested in an incomplete work order being carried out by a Coast Guard industrial unit.

5. So, an obligation is either an "undelivered order", an "inventory asset", a "cost", an "advance", or "work-in-process". Therefore, funds obligated during a year may result in increasing the value of any or all of these accounts. The next question is, "Which of these obligation accounts represent what we call accrued expenditures?" By definition, "accrued expenditures" represent the value of goods and services received in a fiscal period whether or not payment has been made plus advance payments for goods and services to be delivered in a future period. They therefore include inventory increases (goods received), costs



(goods received and issued for use), increases in outstanding advances (payments), and increases in work-in-process (materials received and used, labor received, etc.). In effect, then, the only type of obligation which is not an accrued expenditure is undelivered orders. Consequently, we may state mathematically that the accrued expenditures for a given year equal the total obligations placed in that year minus the algebraic change in undelivered orders during that year, or:

$$(1) \text{ Accrued expenditures} = \text{obligations} - \text{change in undelivered orders}$$

Since the change in undelivered orders is equivalent to the undelivered orders (UOE) at the end of the year less the undelivered orders at the beginning of the year (UOB), our equation may be expressed as:

$$(2) \text{ Accrued expenditures} = \text{obligations} - \text{UOE} + \text{UOB}$$

For example, the AC&I budget for 1961 (Allowance Stage) shows estimated obligation of \$31.1M; undelivered orders at the beginning of 1961 are estimated to be \$12.4M while at the end of the year they are estimated to be \$19.4M, therefore the accrued expenditures for 1961 are determined to be:

$$(3) \text{ Accrued expenditures} = 31.1 - 19.4 + 12.4 = \$24.1\text{M}$$





OPERATING EXPENSES, COAST GUARD  
COMPUTATION OF ACCRUED EXPENDITURES BY SUBHEAD  
1961 Allowance Stage

APPENDIX C

Subhead	Obligations	Change in Undelivered Orders	Funded Costs (1)	Accrued Expenditures (Total of columns below)		
				Change in Inventories	Change in Advances	Change in Uncom. W.O.
01	\$116,617,758		\$116,617,758			
08	11,181,351		11,181,351			
20	8,472,117		8,472,117			
21	1,072,300	+ 5,000	1,067,300			
23	960,500		960,500			
26	4,297,900		4,297,900			
28	596,200		596,200			
40	3,086,666		3,086,666			
41	10,089,100		8,305,100	+1,784,000		
42	8,071,277		8,530,777	- 935,000		
43	23,491,947	+475,500	23,541,947	- 50,000		
44	455,425		455,425			
45	15,621,459		15,571,459	+ 50,000		
46	7,500		7,500			
51	1,521,000		1,485,300	+ 700	+35,000	
52	251,500		251,500			
54	589,400		639,400	- 50,000		
56.1	334,600		334,600			
56.2	955,700		955,700			
56.3	47,000		47,000			
60	279,300		279,300			
86	-		275,000			
			<u>206,959,800</u>	<u>- 275,000</u>	<u>+35,000</u>	<u>-</u>
				}		
Total	<u>208,000,000</u>	<u>-430,500</u>				
Contingency factor (5% rounded)				207,519,500		
Accrued Expenditure limitation, 1961 Allowance Stage				10,480,500		
				<u>218,000,000</u>		

(1) Estimated Operating costs plus donations of material in or out without credit or charge to the subhead





# APPENDIX D

ACTIVITY AND PROJECT	Obligations - Change In Undelivered Orders	Accrued Expenditures (Total of Columns below)	
		Costs	Advances
<b>I. Vessels:</b>			
<b>1961 Projects:</b>			
a. Replace overage 83' patrol boats	\$1,000,000	\$5,100,000	-
b. Replace harbor tugs	300,000	1,200,000	-
c. Replace buoy boats	800,000	700,000	-
d. Design for large cutter replacement	25,000	150,000	-
<b>Prior Year Projects:</b>			
1004 Replace overage 83' patrol boats	-	4,880,000	-4,880,000
1005 Replace buoy boats	-100,000	600,000	-500,000
<b>Total Vessels</b>	<b>2,025,000</b>	<b>12,630,000</b>	<b>-5,380,000</b>
<b>II. Aviation Facilities:</b>			
<b>1961 Projects:</b>			
a. Acquisition of replacement aircraft and procurement of spare parts:			
(1) Acquisition of replacement aircraft	13,480,000	50,000	-
(2) Procurement of spare parts for 2 UF aircraft	-	80,000	-
b. Repair runway and taxiways, CG Air Station, Elizabeth City, N.C.	-	250,000	-
<b>Prior Year Projects:</b>			
2001 Acq. of aircraft & preparation thereof	-7,820,000	7,820,000	-
<b>Total Aviation Facilities</b>	<b>5,660,000</b>	<b>8,200,000</b>	<b>-</b>
<b>III. Shore Stations and Navigational Aids:</b>			
<b>1961 Projects:</b>			
a. Two (2) Moorings	60,000	142,000	-
b. Miscellaneous aids to navigation projects	105,000	402,000	-
c. Selected aids to navigation projects	762,000	185,000	-
d. Replacement of lightships with fixed structures:			
(1) Buzzards Bay lightship replacement	801,300	480,700	-
(2) Brenton Reef lightship replacement	324,000	200,000	-
e. Construct new Primary Radio Station, New Orleans, La.	1,000,000	500,000	-
f. Galveston Bay Channel, Texas	-	83,000	-
g. Brazos Santiago Jetty Lights	-	130,000	-
h. Repair Wharf, Juneau Moorings	-	112,000	-
i. Replace obsolete facilities at depot site, Charlevoix LB Station	200,000	130,000	-
<b>Prior Year Projects:</b>			
3002 Estab. A/N to mark misc. sched. E-of-E & Misc. Urgent A/N	-104,700	504,700	-400,000
3003 Selected Aids to Navigation projects	-40,300	60,400	-20,100
3029 Rehabilitation and replacement of inadequate housing	-670,000	1,370,000	-700,000
3030 Family quarters, Pt. Arena Loran Station	-56,300	167,000	-110,700
3031 Rebuild Hatteras Inlet Lifeboat Station, N.C.	-136,700	400,000	-263,300
3032 Charleston Light, South Carolina	-182,000	182,000	-
3808 A/N for gulf Intracoastal Waterway, Texas	-34,000	34,000	-
3915 A/N for Del. River, Philadelphia, Pa. to Trenton, N.J.	-94,400	94,400	-
<b>Total Shore Stations &amp; Navigational Aids</b>	<b>1,933,900</b>	<b>5,177,200</b>	<b>-1,494,100</b>

ACQUISITION, CONSTRUCTION AND IMPROVEMENTS  
COMPUTATION OF ACCRUED EXPENDITURES BY PROJECTS  
1961 Allowance Stage

ACTIVITY AND PROJECT

IV. Repair and Supply Facilities:

1961 Projects:

- a. Construct CG Depot Keokuk to support CGC LANTANA
- b. Relocation of CG Depot, Memphis, Tenn.
- c. Replacement of facilities at Depot, Southwest Harbor, Maine
- d. Extend wharf, Depot Corpus Christi, Texas
- e. Repair bulkheads, docks and buoy slabs, BASE, Portsmouth, Va.

Prior Year Projects:

- 4012 Consolidate facilities, Base, Saulte, Ste Marie, Michigan
- 4014 Construct facilities, Base, Buffalo, N. Y.
- 4911 Construct New Power Substation, YARD

Total Repair & Supply Facilities

V. Training and Recruiting Facilities:

1961 Projects:

- a. Extension of classroom space, CG Academy
- b. Construction of maintenance shop building, CG Academy
- c. Survey of faculty requirements, CG Academy
- d. Construct operating force barracks, Receiving Center, Cape May, N. J.

Prior Year Projects:

- 5902 Extend Cadet Barracks, Academy

Total Training & Recruiting Facilities

Obligations - Change in =  
undelivered Orders (Total of Columns below)  
Costs Advances

	133,000	-	133,000	-
	114,000	-	114,000	-
	164,000	64,000	100,000	-
	55,000	-	55,000	-
	122,000	-	122,000	-
	-	-467,400	727,000	-259,600
	-	-750,700	800,800	-50,100
	-	-61,063	313,985	-252,922
<b>588,000</b>	<b>-1,215,163</b>		<b>2,265,785</b>	<b>-562,622</b>
<hr/>				
	122,000	42,000	80,000	-
	450,000	350,000	100,000	-
	20,000	-	20,000	-
	1,183,000	-	1,183,000	-
	-	-1,795,700	1,820,000	-24,300
<b>1,775,000</b>	<b>-1,403,700</b>		<b>3,203,000</b>	<b>-24,300</b>
<hr/>				
<b>Grand Total, 1961 Budget Stage</b>	<b>31,115,000</b>	<b>-7,000,037</b>	<b>=</b>	<b>24,114,963</b>
<b>Contingency factor (10% --rounded)</b>				<u><b>2,385,037</b></u>
<b>Accrued expenditure limitation, 1961 Allowance Stage</b>				<u><b>26,500,000</b></u>
			<u><b>31,575,985</b></u>	<u><b>-7,461,022</b></u>

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